AMERICAN INTERNATIONAL GROUP INC
Form 10-K
February 24, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2010 **Commission file number 1-8787**

American International Group, Inc.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

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

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

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

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

The aggregate market value of the voting and nonvoting common equity held by nonaffiliates of the registrant (based on the closing price of the registrant's most recently completed second fiscal quarter) was approximately $4,397,000,000.

As of January 31, 2011, there were outstanding 1,795,503,716 shares of Common Stock, $2.50 par value per share, of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

Document of the Registrant	Form 10-K Reference Locations
Portions of the registrant's definitive proxy statement for the 2011 Annual Meeting of Shareholders	Part III, Items 10, 11, 12, 13 and 14

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American International Group, Inc., and Subsidiaries

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Part I

Item 1. Business

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

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

In September 2008, liquidity issues resulted in AIG seeking and receiving governmental support through a credit facility from the Federal Reserve Bank of New York (the FRBNY, and such credit facility, the FRBNY Credit Facility) and funding from the United States Department of the Treasury (Department of the Treasury) through the Troubled Asset Relief Program (TARP). On January 14, 2011, AIG was recapitalized (the Recapitalization) and the FRBNY Credit Facility was repaid and terminated through a series of transactions that resulted in the Department of the Treasury becoming AIG's majority shareholder with ownership of approximately 92 percent of AIG's outstanding common stock. AIG understands that, subject to market conditions, the Department of the Treasury intends to dispose of its ownership interest over time, and AIG has granted certain registration rights to the Department of the Treasury to facilitate such sales. See Management's Discussion and Analysis of Financial Condition and Results of Operations Capital Resources and Liquidity and Notes 1 and 26 to the Consolidated Financial Statements for further discussion of the governmental support provided to AIG and the Recapitalization.

AIG reports the results of its operations through the following three reportable segments:

Chartis AIG's property and casualty operations are conducted through multiple line companies writing substantially all commercial and consumer lines both domestically and abroad. Beginning in the third quarter of 2010, reporting includes the results of Fuji Fire & Marine Insurance Company Limited (Fuji), a recently consolidated business writing primarily consumer lines in Japan. These operations were rebranded under the Chartis brand in 2009.

SunAmerica Financial Group (SunAmerica) SunAmerica offers a comprehensive suite of products and services to individuals and groups, including term life, universal life, accident and health (A&H), fixed and variable deferred annuities, fixed payout annuities, mutual funds and financial planning. SunAmerica offers its products and services through a diverse, multi-channel distribution network that includes banks, national, regional and independent broker-dealers, affiliated financial advisors, independent marketing organizations, independent and career insurance agents, structured settlement brokers, benefit consultants and direct-to-consumer platforms. These operations were previously known as AIG Domestic Life Insurance & Retirement Services and were renamed SunAmerica in 2009.

Financial Services AIG's financial services businesses engage in commercial aircraft leasing through International Lease Finance Corporation (ILFC) and the remaining Capital Markets portfolios through AIG Financial Products Corp. and AIG Trading Group Inc. and their respective subsidiaries (collectively, AIGFP).

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The principal business units in each of AIG's reportable segments at year-end 2010 are as follows.

Chartis	**SunAmerica**
National Union Fire Insurance Company of Pittsburgh, Pa. (National Union)	American General Life Insurance Company (American General)
New Hampshire Insurance Company (New Hampshire)	American General Life and Accident Insurance Company (AGLA)
American Home Assurance Company (American Home)	The United States Life Insurance Company in the City of New York (USLIFE)
Lexington Insurance Company (Lexington)	The Variable Annuity Life Insurance Company (VALIC)
AIU Insurance Company (AIUI)	Western National Life Insurance Company (Western National)
Chartis Overseas, Ltd.	SunAmerica Annuity and Life Assurance Company (SunAmerica Annuity)
Fuji Fire & Marine Insurance Company Limited (Fuji)	
Chartis UK Holdings Limited (Chartis UK)	
Chartis Europe, S.A. (Chartis Europe)	

Financial Services

International Lease Finance Corporation (ILFC)

AIG Financial Products Corp. and AIG Trading Group Inc.
and their respective subsidiaries (AIGFP)

The following principal business units are not included in AIG's reportable segments because they consist of businesses and items not allocated to AIG's reportable segments or have been or are in the process of being divested:

Other Operations, Including Divested Businesses	**Discontinued Operations**
Other operations:	American Life Insurance Company (ALICO) (sold in November 2010)
AIG Parent	AIG Star Life Insurance Co., Ltd. (AIG Star) (sold in February 2011)
United Guaranty Corporation (UGC)	AIG Edison Life Insurance Company (AIG Edison) (sold in February 2011)
American International Reinsurance Company Limited (AIRCO)	Nan Shan Life Insurance Company, Ltd. (Nan Shan) (expected to be sold in 2011)

Institutional Asset Management:

AIG Global Asset Management Holdings Corp., AIG Markets, Inc., AIG Asset Management U.S., LLC (and, until their collective sale on March 26, 2010, PineBridge Capital Partners, LLC, PineBridge Global Investments LLC, and PineBridge Securities LLC,)

Direct Investment business:

AIG Global Real Estate Corp.

Divested businesses:

American International Assurance Company, Limited, together with American International Assurance Company (Bermuda) Limited, until their collective deconsolidation on October 29, 2010 as a result of the initial public offering of their parent holding company, AIA Group Limited (AIA)

American General Finance, Inc. (AGF) (sold in November 2010)

For financial information concerning AIG's reportable segments, including geographic areas of operation, and changes made in 2010, see Note 3 to the Consolidated Financial Statements.

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American International Group, Inc., and Subsidiaries

The following charts present the sources of AIG's revenues for the years ended December 31, 2010 and 2009:

2010 **2009**

---

*
Includes consolidation and eliminations, but excludes discontinued operations.

Additional information about AIG's operations follows:

Chartis Operations

Chartis is a major global property and casualty insurance franchise built over 90 years and serving more than 45 million clients. Chartis wrote $31.6 billion in net premiums in 2010. Chartis is diversified both in terms of classes of businesses and geographic locations. Chartis U.S. writes commercial and consumer products throughout the U.S. and Canada. Chartis International writes commercial and consumer products outside the U.S. and Canada. For the year ended December 31, 2010, Chartis U.S. and Chartis International comprised approximately 55 percent and 45 percent, respectively, of the Chartis business, measured by net premiums written.

Chartis' combination of global reach and scale, extensive range of products and services, diversified, multi-channel distribution network and strong capital positions it to meet the demands of a broad range of customers worldwide.

Chartis is diversified both in terms of classes of business and geographic locations. During 2010, 6 percent and 5 percent of its direct premiums written (gross premiums less return premiums and cancellations, excluding insurance assumed and before deducting reinsurance ceded) were written in the states of California and New York, respectively, and 13 percent and 8 percent in Japan and the United Kingdom, respectively. No other state or foreign jurisdiction accounted for more than five percent of such premiums.

The composition of Chartis net premiums written in 2010 is as follows:

NPW by Region. **NPW by Line of Business**

Business Strategy

Chartis leverages its global knowledge and experience in the property and casualty markets by competing in selected commercial lines such as executive liability/ director's and officer's liability (D&O), large risk management programs and commercial property. In recent years, Chartis has repositioned its Commercial Lines business mix by increasingly complementing its portfolio of Fortune 1000 and multinational clients with small-and medium-sized enterprises. Its global geographic footprint and local presence enable Chartis to provide multinational customers with insurance programs across borders and continents.

Chartis also has a strong and growing consumer business. The consumer business underwrites lines such as Accident & Health, property, auto and liability for high-net-worth individuals, extended warranty and travel insurance products and services.

Chartis' scale and diverse product offerings allow it to pursue cross-selling opportunities among its businesses. For example, Chartis can provide primary casualty coverage for an account as part of its commercial casualty unit, underwrite that account's board of directors through its executive liability business and insure the personal needs of its management through its Private Client Group as part of its Consumer segment.

Client Approach

Chartis clients benefit from its substantial underwriting capacity, long-term commitment to the markets and clients it serves and tradition of product innovation and expertise. In 2010, Chartis introduced more than 200 products and services worldwide.

Capital Deployment

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

Chartis U.S.

The Chartis U.S. companies comprise the largest U.S.-domiciled commercial property and casualty group by 2010 net premiums written. Chartis U.S. distributes its products through independent retail and wholesale brokers, and writes business on both an admitted and surplus line basis. Chartis U.S. business in the United States and Canada is conducted through American Home, National Union, Lexington, the market leader in surplus lines, and certain other property-casualty insurance company subsidiaries of Chartis U.S. Inc.

Chartis U.S.'s business strategy focuses on growing high-margin, less capital intensive lines of business, including segments of consumer lines, specialty markets and its multinational business, while leveraging its distribution relationships, innovation, national footprint and extensive product offering.

Chartis U.S. commercial lines include:

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

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

Specialty: Includes aviation, marine and energy, environmental, kidnap-ransom, export credit and political risk coverages. It also offers various forms of professional liability insurance including D&O, fidelity, employment practices, fiduciary liability and errors and omissions coverages. Chartis U.S. also offers products and services to U.S.-based multinational clients doing business overseas and to foreign corporations doing business in the U.S. as part of its Worldsource business.

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Chartis U.S. consumer insurance lines include:

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

Personal: Includes insurance products and risk management services for high net worth individuals (Private Client Group) including homeowners, automobile, umbrella, yacht and fine art coverages, as well as extended service contracts, primarily for consumer electronics products.

Chartis U.S. net premiums written for 2010 are as follows:

Chartis U.S. NPW

Chartis International

Chartis International is the largest U.S.-based property and casualty insurer in Europe, the largest foreign insurance company in Japan and China, and an established leader in other developing markets such as India, Korea, Argentina and Russia. Chartis International is also a market leader in aerospace, marine, energy and financial lines.

Chartis International's geographic footprint, its history in markets and its access to local resources allow it to better serve global clients and to take advantage of new and emerging opportunities around the world.

Chartis International writes commercial (Casualty, Property and Specialty) and consumer (A&H, Personal and Life) lines through a network of agencies, branches and foreign-based insurance subsidiaries. Chartis International uses various marketing methods and multiple distribution channels to write both commercial and consumer lines of insurance with refinements for local laws, customs and needs. Given its extensive worldwide presence, Chartis International organizes itself into three broad regions: the Far East, Europe and Growth Economies (which primarily include Asia Pacific, the Middle East and Latin America).

Chartis International's business strategy, aided by its competitive position in the international market and ability to write both commercial and consumer lines, is focused on growing its commercial business in emerging economies and consumer lines in many parts of the world.

The acquisition of a controlling stake in Fuji Fire & Marine Insurance Company Limited (Fuji) in 2010 was consistent with this strategy. The acquisition of Fuji enhances Chartis' position in the substantial Japanese insurance market and provides a new distribution channel. As a result of this transaction, Chartis International has solidified its position as the largest foreign-owned property and casualty insurance group at December 31, 2010.

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Chartis International net premiums written for 2010 are as follows:

Chartis International NPW

Discussion and Analysis of Consolidated Loss Reserve Development

The net liability for unpaid claims and claims adjustment expense (net loss reserves) shown in the following tables represents management's best estimate of future payments for covered losses, which is derived from the accumulation of estimates for reported losses (case basis reserves) and provisions for losses incurred but not reported (IBNR), both reduced by applicable reinsurance recoverable and the discount for future expected investment income, where permitted. Net losses and loss expenses are charged to income as incurred. For a discussion of our loss reserve experience in 2010, see Management's Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Segment Results Chartis Operations Liability for Unpaid Claims and Claims Adjustment Expense.

The loss reserves established with respect to foreign business are set and monitored in the currencies in which payment is expected to be made. Therefore, no assumption is included for changes in exchange rates. See Note 2(v) to the Consolidated Financial Statements.

A significant portion of Chartis' business is in the commercial casualty class, which tends to involve longer periods of time for the reporting and settlement of claims and may increase the risk and uncertainty with respect to Chartis' loss reserve development.

Management reviews the adequacy of established net loss reserves utilizing a number of analytical reserve development techniques. Through the use of these techniques, management monitors the adequacy of AIG's established reserves and determines appropriate assumptions for inflation and other factors influencing loss costs. Also, analysis of emerging specific development patterns, such as case reserve redundancies or deficiencies and IBNR emergence, allows management to determine any required adjustments.

The "Analysis of Consolidated Loss Reserve Development" table presents the development of net loss reserves for calendar years 2000 through 2010. Immediately following this table is a second table that presents all data on a basis that excludes asbestos and environmental net loss reserve development. The opening reserves held are shown at the top of the table for each year-end date. The amount of loss reserve discount included in the opening reserve at each date is shown immediately below the reserves held for each year. The undiscounted reserve at each date is equal to the sum of the discount and the reserve held.

The upper half of the table presents the cumulative amounts paid during successive years related to the undiscounted opening loss reserves. For example, in the table that excludes asbestos and environmental losses, with respect to the net loss reserve of $35.56 billion at December 31, 2003, by the end of 2010 (seven years later) $43.18 billion had actually been paid in settlement of this net loss reserve. In addition, as reflected in the lower section of the table, the original undiscounted reserve of $37.08 billion was re-estimated to be $55.75 billion at December 31, 2010. This increase from the original estimate generally results from a combination of a number of factors, including claims being settled for larger amounts than originally estimated. The original estimates are also increased or decreased

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as more information becomes known about the individual claims and overall claim frequency and severity patterns. The redundancy (deficiency) depicted in the table, for any particular calendar year, presents the aggregate change in estimates over the period of years subsequent to the calendar year reflected at the top of the respective column heading. For example, the deficiency of $2.68 billion at December 31, 2010 related to December 31, 2009 net losses and loss expense reserves of $69.24 billion represents the cumulative amount by which reserves in 2009 and prior years have developed unfavorably during 2010.

The bottom of each table below presents the remaining undiscounted and discounted net loss reserves for each year. For example, in the table that excludes asbestos and environmental losses, for the 2002 year-end, the remaining undiscounted reserves held at December 31, 2010 are $11.04 billion, with a corresponding discounted net reserve of $10.08 billion.

For a sensitivity analysis of loss reserves held at December 31, 2010, see Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Estimates Liability for Unpaid Claims and Claims Adjustment Expense.

Analysis of Consolidated Loss Reserve Development

The following table presents for each calendar year the loss reserves and the development thereof including those with respect to asbestos and environmental claims.*

(in millions)	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Net Reserves Held	$ 25,684	$ 26,005	$ 29,347	$ 36,228	$ 47,253	$ 57,476	$ 62,630	$ 69,288	$ 72,455	$ 67,899	$ 71,507
Discount (in Reserves Held)	1,287	1,423	1,499	1,516	1,553	2,110	2,264	2,429	2,574	2,655	3,217
Net Reserves Held (Undiscounted)	26,971	27,428	30,846	37,744	48,806	59,586	64,894	71,717	75,029	70,554	74,724
Paid (Cumulative) as of:											
One year later	9,709	11,007	10,775	12,163	14,910	15,326	14,862	16,531	24,267	15,919	
Two years later	17,149	18,091	18,589	21,773	24,377	25,152	24,388	31,791	36,164		
Three years later	21,930	23,881	25,513	28,763	31,296	32,295	34,647	40,401			
Four years later	26,090	28,717	30,757	33,825	36,804	40,380	40,447				
Five years later	29,473	32,685	34,627	38,087	43,162	44,473					
Six years later	32,421	35,656	37,778	42,924	46,330						
Seven years later	34,660	38,116	41,493	45,215							
Eight years later	36,497	41,055	43,312								
Nine years later	38,943	42,591									
Ten years later	40,153										

(in millions)	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
	$ 26,971	$ 27,428	$ 30,846	$ 37,744	$ 48,806	$ 59,586	$ 64,894	$ 71,717	$ 75,029	$ 70,554	$ 74,724

Net Reserves Held (Undiscounted)										
Undiscounted Liability as of:										
One year later	26,979	31,112	32,913	40,931	53,486	59,533	64,238	71,836	77,800	74,736
Two years later	30,696	33,363	37,583	49,463	55,009	60,126	64,764	74,318	82,043	
Three years later	32,732	37,964	46,179	51,497	56,047	61,242	67,303	78,275		
Four years later	36,210	45,203	48,427	52,964	57,618	63,872	70,733			
Five years later	41,699	47,078	49,855	54,870	60,231	67,102				
Six years later	43,543	48,273	51,560	57,300	63,348					
Seven years later	44,475	49,803	53,917	60,283						
Eight years later	45,767	52,034	56,827							
Nine years later	47,682	54,847								
Ten years later	50,422									
Net Redundancy / (Deficiency)	(23,451)	(27,419)	(25,981)	(22,539)	(14,542)	(7,516)	(5,839)	(6,558)	(7,014)	(4,182)
Remaining Reserves (Undiscounted)	10,269	12,256	13,515	15,068	17,018	22,629	30,286	37,874	45,879	58,817
Remaining Discount	824	941	1,116	1,245	1,363	1,531	1,751	2,056	2,425	2,836
Remaining Reserves	9,445	11,315	12,399	13,823	15,655	21,098	28,535	35,818	43,454	55,981

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American International Group, Inc., and Subsidiaries

The following table presents the gross liability (before discount), reinsurance recoverable and net liability recorded for each calendar year, and the reestimation of these amounts as of December 31, 2010:

(in millions)	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Gross Liability, End of Year	$ 39,222	$ 42,629	$ 48,173	$ 53,388	$ 63,430	$ 79,279	$ 82,263	$ 87,929	$ 91,832	$ 88,041	$ 94,368
Reinsurance Recoverable, End of Year	12,251	15,201	17,327	15,644	14,624	19,693	17,369	16,212	16,803	17,487	19,644
Net Liability, End of Year	26,971	27,428	30,846	37,744	48,806	59,586	64,894	71,717	75,029	70,554	74,724
Reestimated Gross Liability	75,731	80,801	82,628	83,659	84,848	91,544	91,738	97,890	101,022	94,070	
Reestimated Reinsurance Recoverable	25,309	25,954	25,801	23,376	21,500	24,442	21,005	19,615	18,979	19,334	
Reestimated Net Liability	50,422	54,847	56,827	60,283	63,348	67,102	70,733	78,275	82,043	74,736	
Cumulative Gross Redundancy/(Deficiency)	(36,509)	(38,172)	(34,455)	(30,271)	(21,418)	(12,265)	(9,475)	(9,961)	(9,190)	(6,029)	

*

During 2009, Transatlantic Holdings, Inc. (Transatlantic) was deconsolidated and 21st Century Insurance Group and Agency Auto Division (excluding AIG Private Client Group) (21st Century) and HSB Group, Inc. (HSB) were sold. The sales and deconsolidation are reflected in the table above as a reduction in December 31, 2009 net reserves of $9.7 billion and as an $8.6 billion increase in paid losses for the years 1999 through 2008 to remove the reserves for these divested entities from the ending balance.

Analysis of Consolidated Losses and Loss Expense Reserve Development Excluding Asbestos and Environmental Losses and Loss Expense Reserve Development

The following table presents the losses and loss expense reserves and the development thereof excluding those for asbestos and environmental claims for each calendar year.*

(in millions)	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Net Reserves Held	$ 24,829	$ 25,286	$ 28,651	$ 35,559	$ 45,742	$ 55,226	$ 60,451	$ 67,597	$ 71,062	$ 66,588	**$ 69,157**
Discount (in Reserves Held)	1,287	1,423	1,499	1,516	1,553	2,110	2,264	2,429	2,574	2,655	**3,055**
Net Reserves Held (Undiscounted)	26,116	26,709	30,150	37,075	47,295	57,336	62,715	70,026	73,636	69,243	**72,212**
Paid (Cumulative) as of:											
One year later	9,515	10,861	10,632	11,999	14,718	15,047	14,356	16,183	24,028	15,618	
Two years later	16,808	17,801	18,283	21,419	23,906	24,367	23,535	31,204	35,613		
Three years later	21,447	23,430	25,021	28,129	30,320	31,163	33,555	39,503			
Four years later	25,445	28,080	29,987	32,686	35,481	39,009	39,044				

Five years later	28,643	31,771	33,353	36,601	41,600	42,791
Six years later	31,315	34,238	36,159	41,198	44,456	
Seven years later	33,051	36,353	39,637	43,178		
Eight years later	34,543	39,055	41,163			
Nine years later	36,752	40,299				
Ten years later	37,671					

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American International Group, Inc., and Subsidiaries

(in millions)	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Net Reserves Held (Undiscounted)	$ 26,116	$ 26,709	$ 30,150	$ 37,075	$ 47,295	$ 57,336	$ 62,715	$ 70,026	$ 73,636	$ 69,243	**$ 72,212**
Undiscounted Liability as of:											
One year later	26,071	30,274	32,129	39,261	51,048	57,077	62,043	70,096	76,251	71,925	
Two years later	29,670	32,438	35,803	46,865	52,364	57,653	62,521	72,423	78,994		
Three years later	31,619	36,043	43,467	48,691	53,385	58,721	64,904	74,880			
Four years later	34,102	42,348	45,510	50,140	54,908	61,195	66,833				
Five years later	38,655	44,018	46,925	51,997	57,365	62,924					
Six years later	40,294	45,201	48,584	54,272	58,981						
Seven years later	41,213	46,685	50,786	55,753							
Eight years later	42,459	48,761	52,199								
Nine years later	44,219	50,077									
Ten years later	45,463										
Net Redundancy/(Deficiency)	(19,347)	(23,368)	(22,049)	(18,678)	(11,686)	(5,588)	(4,118)	(4,854)	(5,358)	(2,682)	
Remaining Reserves (Undiscounted)	7,792	9,778	11,036	12,575	14,525	20,133	27,789	35,377	43,381	56,307	
Remaining Discount	662	779	953	1,083	1,201	1,369	1,589	1,894	2,263	2,674	
Remaining Reserves	7,130	8,999	10,083	11,492	13,324	18,764	26,200	33,483	41,118	53,633	

The following table presents the gross liability excluding liability for asbestos and environmental claims (before discount), reinsurance recoverable and net liability for each calendar year and the reestimation of these amounts as of December 31, 2010:

(in millions)	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Gross Liability, End of Year	$ 36,777	$ 40,400	$ 46,036	$ 51,363	$ 59,790	$ 73,808	$ 77,111	$ 83,551	$ 87,973	$ 84,467	**$ 87,830**
Reinsurance Recoverable, End of Year	10,661	13,691	15,887	14,288	12,495	16,472	14,396	13,525	14,337	15,224	**15,618**
Net Liability, End of Year	26,116	26,709	30,149	37,075	47,295	57,336	62,715	70,026	73,636	69,243	**72,212**
Reestimated Gross Liability	63,792	69,391	71,561	72,973	74,452	81,570	82,422	89,452	93,331	87,149	
Reestimated Reinsurance Recoverable	18,329	19,314	19,362	17,220	15,471	18,646	15,589	14,572	14,337	15,224	

Reestimated Net Liability	45,463	50,077	52,199	55,753	58,981	62,924	66,833	74,880	78,994	71,925
Cumulative Gross Redundancy/(Deficiency)	(27,015)	(28,991)	(25,525)	(21,610)	(14,662)	(7,762)	(5,311)	(5,901)	(5,358)	(2,682)

* *During 2009, Transatlantic was deconsolidated and 21st Century and HSB were sold. The sales and deconsolidation are reflected in the table above as a reduction in December 31, 2009 net reserves of $9.6 billion and as an $8.6 billion increase in paid losses for the years 1999 through 2008 to remove the reserves for these divested entities from the ending balance.*

The Liability for unpaid claims and claims adjustment expense as reported in AIG's Consolidated Balance Sheet at December 31, 2010 differs from the total reserve reported in the Annual Statements filed with state insurance departments and, where appropriate, with foreign regulatory authorities. The differences at December 31, 2010 relate primarily to reserves for certain foreign operations not required to be reported in the United States for statutory reporting purposes. Further, statutory practices in the United States require reserves to be shown net of applicable reinsurance recoverable. In addition, AIG's Consolidated Balance Sheet and the amounts in the tables above are reflected net of intercompany transactions, whereas statutory financial statements include reserves for intercompany transactions.

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

For further discussion regarding net loss reserves, see Management's Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Segment Results Chartis Operations Liability for Unpaid Claims and Claims Adjustment Expense.

SunAmerica Operations

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

The SunAmerica segment has two operating segments: *Domestic Life*, which focuses on mortality-and morbidity-based protection products, and *Domestic Retirement Services*, which focuses on investment, retirement savings and income solutions.

Business Strategy

SunAmerica's strategy is to increase sales of its products and services in a disciplined manner that drives consistent, profitable earnings growth and efficient use of capital. To do so, SunAmerica will seek to take advantage of the growing need for insurance solutions to help Americans achieve their protection, investment, retirement savings and retirement income goals. With its comprehensive platform of products and services offered through a diverse multi-channel distribution network, SunAmerica is well positioned to help a wide array of customers meet their goals. SunAmerica plans to further expand its distribution network by adding more distribution firms, increasing the number of individual agents and financial advisors who sell its products and seeking to increase the productivity of those agents and advisors already selling its products especially those in its affiliated group of career and independent agents and financial advisors. SunAmerica will pursue a disciplined approach to pricing, product feature development, risk management, asset/liability management and expense control. SunAmerica will work to enhance operational efficiencies and service levels through prudent investments in technology, leveraging resources and enhancing utilization of lower cost operations centers.

Domestic Life

SunAmerica's Domestic Life operations are conducted through the American General business unit:

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

Domestic Retirement Services

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

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

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

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

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

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

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

Premiums and Other Considerations

Premiums, Deposits and Other Considerations

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

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

Year Ended December 31, *(in millions)*	**2010**
Premiums, deposits and other considerations	$ 19,086
Deposits	(16,461)
Fee income	2,710
Other	(105)
Premiums and other considerations	$ 5,230

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American International Group, Inc., and Subsidiaries

Reinsurance Activities

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

For a further discussion of reinsurance, see Item 1A. Risk Factors Reinsurance; and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Risk Management Insurance Risk Management Reinsurance.

Insurance Investment Activities

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

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

The majority of assets backing insurance liabilities at AIG consist of intermediate and long duration fixed maturity securities. In the case of SunAmerica, the fundamental investment strategy is, as nearly as is practicable, to match the duration characteristics of the liabilities with assets of comparable duration. Fixed maturity securities held by the insurance companies included in Chartis U.S. historically have consisted primarily of laddered holdings of tax-exempt municipal bonds, which provided attractive after-tax returns and limited credit risk. In order to meet the Chartis U.S. current risk/return and tax objectives, the domestic property and casualty companies have begun to shift investment allocations away from tax-exempt municipal bonds towards taxable instruments which meet the companies' liquidity, duration and quality objectives as well as current risk-return and tax objectives. Fixed maturity securities held by Chartis International companies consist primarily of intermediate duration high-grade securities.

See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Investments Investment Strategy for discussion of AIG's investment strategy.

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

Years Ended December 31, *(in millions)*	**Annual Average Investments[(a)]**	**Net Investment Income**	**Pre-tax Return on Average Investments[(b)]**
Chartis:			
2010	**$ 100,583**	**$ 4,392**	**4.4%**
2009	89,236	3,292	3.7
2008	92,313	2,567	2.8
SunAmerica:			
2010	**$ 154,167**	**$ 10,768**	**7.0%**
2009	148,202	9,553	6.4
2008	196,515	9,134	4.6

(a) *Includes real estate investments and, in 2008, collateral assets invested under the securities lending program, and excludes cash and short-term investments.*

(b)

Net investment income divided by the annual average investments.

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Financial Services Operations

Aircraft Leasing

International Lease Finance Corporation (ILFC), one of the world's leading aircraft lessors, acquires commercial jet aircraft from various manufacturers and other parties and leases those aircraft to airlines around the world.

As of December 31, 2010, ILFC managed a lease portfolio of over 1,000 aircraft, including an owned fleet of 933 aircraft with a net book value of approximately $38.5 billion. Additionally, ILFC had contracted with Boeing and Airbus to purchase 115 new aircraft through 2019, with an estimated purchase price of approximately $13.5 billion.

ILFC believes its scale, the breadth and mix of its aircraft portfolio and its long-standing relationships with a global customer base that includes the majority of the world's leading airlines allow it to lease aircraft under favorable terms and maximize utilization.

As part of its ongoing fleet strategy, ILFC may pursue potential aircraft sales or opportunities to sell parts of aircraft. In evaluating its fleet strategies, ILFC is balancing the need for funding with the long-term value of holding aircraft and other financing alternatives.

Capital Markets

AIGFP has continued to unwind its portfolios, including those associated with credit protection written through credit default swaps on super senior risk tranches of diversified pools of loans and debt securities. As a consequence of its wind-down strategy, AIGFP is entering into new derivative transactions only to hedge its current portfolio, reduce risk and hedge the currency, interest rate and other market risks associated with its affiliated businesses. See Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity of Parent and Subsidiaries Financial Services Capital Markets Wind-down. Prior to the wind-down, AIGFP engaged as principal in a wide variety of financial transactions, including standard and customized financial products involving commodities, credit, currencies, energy, equities and interest rates.

Historically, AIGFP derived a significant portion of its revenues from hedged financial positions entered into in connection with counterparty transactions. Prior to the wind-down, AIGFP also participated as a dealer in a wide variety of financial derivatives transactions.

Other Operations

AIG's Other operations include results from Parent & Other operations, after allocations to AIG's business segments, Mortgage Guaranty operations, Asset Management operations and results from those divested businesses not included in Discontinued operations.

Parent & Other

AIG's Parent & Other operations consist primarily of interest expense, intercompany interest income that is eliminated in consolidation, restructuring costs, expenses of corporate staff not attributable to specific reportable segments, expenses related to efforts to improve internal controls and the financial and operating platforms, corporate initiatives, certain compensation plan expenses, corporate level net realized capital gains and losses, certain litigation related charges and net gains and losses on sale of divested businesses and properties that did not qualify for discontinued operations accounting treatment. In addition, fair value gains or losses on AIG's remaining interest in AIA and in the MetLife, Inc. (MetLife) securities received as consideration from the sale of ALICO are recorded as Net investment income and are included in Parent & Other operations.

Mortgage Guaranty

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

UGC previously insured second-lien and private student loans, but ceased insuring new business in these products in 2008, although certain of the second-lien policies are subject to reinstatement.

Mortgage Guaranty is seeking to take advantage of its risk-based pricing approach, expand into new attractive markets and manage its legacy exposures through risk mitigation strategies.

Asset Management Operations

AIG's Asset Management operations include the results of the Direct Investment business and the Institutional Asset Management business.

On March 26, 2010, AIG completed the sale of its third-party asset management business. The results of operations through the closing of the sale are included in the Institutional Asset Management results. Subsequent to the sale, Institutional Asset Management derives the majority of its revenues from providing asset management services to AIG and its subsidiaries and are eliminated in consolidation.

Direct Investment Business

The Direct Investment business includes results of AIG Global Real Estate, the Matched Investment Program (MIP), AIG's historical program to generate spread income from investments yielding returns greater than AIG's cost of funds, and certain non-derivative assets and liabilities of AIGFP. The MIP assets and liabilities and the AIGFP portfolio are being managed as a single portfolio to better match maturities of assets and liabilities. AIG Global Real Estate is selling, restructuring or otherwise divesting its assets and reducing its funding obligations. Direct Investment business operating results are significantly impacted by performance in the credit, equity, interest rate, foreign exchange and real estate markets.

Institutional Asset Management Business

AIG's Institutional Asset Management business is conducted through AIG Global Asset Management Holdings Corp. and its subsidiaries, including AIG Markets, Inc. (AIG Markets). AIG Markets acts as a derivative intermediary transacting with AIG, its subsidiaries and third parties.

Divested Businesses

Divested businesses include the historical results of divested entities that did not meet the criteria for discontinued operations accounting treatment as well as certain immaterial non-core businesses currently in run-off. Divested businesses include the historical results of AIA through October 29, 2010 and AIG's remaining consumer finance business, discussed below. In the third quarter of 2010 AIG completed an initial public offering of ordinary shares of AIA; upon completion of the initial public offering, AIG owned approximately 33 percent of the outstanding shares of AIA. Based on AIG's continuing involvement with AIA, as a result of its ownership of 33 percent of AIA's shares and board representation, AIA is not presented as a discontinued operation.

Discontinued Operations

Discontinued operations include the results of ALICO, AIG Star, AIG Edison, Nan Shan and AGF. In the fourth quarter of 2010 AIG closed the sales of ALICO and AGF, and on February 1, 2011 AIG closed the sale of AIG Star and AIG Edison. On January 12, 2011, AIG entered into an agreement to sell Nan Shan, and expects to close the sale within the next 12 months. See Note 4 to the Consolidated Financial Statements for additional information on discontinued operations.

Additionally, following the classification of AGF as a discontinued operation in the third quarter of 2010 (see Note 4 to the Consolidated Financial Statements), AIG's remaining consumer finance business, which is conducted through the AIG Federal Savings Bank and the Consumer Finance Group in Poland, is now reported in AIG's Other operations category as part of Divested businesses.

Locations of Certain Assets

As of December 31, 2010, approximately 25 percent of the consolidated assets of AIG were located outside the U.S. and Canada, including $3.6 billion of cash and securities on deposit with regulatory authorities in those locations. Operations outside the U.S. and Canada and assets held abroad may be adversely affected by political developments in foreign countries, including tax changes, nationalization and changes in regulatory policy, as well as by consequence of hostilities and unrest. The risks of such occurrences and their overall effect upon AIG vary from country to country and cannot easily be predicted. If expropriation or nationalization does occur, AIG's policy is to take all appropriate measures to seek recovery of any affected assets. Certain of the countries in which AIG's business is conducted have currency restrictions that generally cause a delay in a company's ability to repatriate assets and profits. See also Item 1A. Risk Factors Foreign Operations and Notes 2 and 3 to the Consolidated Financial Statements.

Regulation

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

Supervisory Coordinator

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

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

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

Dodd-Frank Wall Street Reform and Consumer Protection Act

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

ongoing process anticipated to continue over the next few years. Many of the regulations must be adopted before July 16, 2011. AIG cannot predict with certainty the requirements of the regulations ultimately adopted or how or whether Dodd-Frank and such regulations will affect the financial markets generally; impact AIG's businesses, results of operations, cash flows or financial condition; or require AIG to raise additional capital or result in a downgrade of AIG's credit ratings.

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

- The new legislation provides two scenarios in which the Board of Governors of the Federal Reserve System (FRB) could become AIG's regulator: (1) if AIG is recognized as a "savings and loan holding company" as defined by the Home Owners' Loan Act (HOLA); and/or (2) if the newly created systemic risk regulator the Financial Stability Oversight Council (Council) designates AIG as a company whose material financial distress, or whose nature, scope, size, scale, concentration, interconnectedness or mix of activities, could pose a threat to the financial stability of the United States (a Designated Financial Company).

- If AIG becomes subject, as a savings and loan holding company, to the examination, enforcement and supervisory authority of the FRB, the FRB would be required to impose minimum leverage and risk-based capital requirements on AIG and its subsidiaries. AIG cannot predict what capital regulations the FRB would promulgate under these authorizations, either generally or as applicable to insurance businesses, nor can AIG predict how the FRB would exercise general supervisory authority over AIG. If designated as a Designated Financial Company, AIG would become subject to stricter prudential standards not yet specified, including stricter requirements and limitations relating to risk-based capital, leverage, liquidity and credit exposure, as well as overall risk management requirements, management interlock prohibitions, a new early remediation process and a requirement to maintain a plan for rapid and orderly dissolution in the event of severe financial distress.

- If AIG is designated as a Designated Financial Company and determined to be a grave threat to U.S. financial stability, it would be required to maintain a debt-to-equity ratio of no more than 15:1, and the FRB could (i) limit AIG's ability to merge with, acquire, consolidate with, or become affiliated with another company, to offer specified financial products or to terminate specified activities; (ii) impose conditions on how we conduct our activities or (iii) with approval of the Council, and a determination that the foregoing actions are inadequate to mitigate a threat to U.S. financial stability, require AIG to sell or otherwise transfer assets or off-balance-sheet items to unaffiliated entities.

- In either scenario, AIG may become subject to stress tests to determine whether, on a consolidated basis, AIG has the capital necessary to absorb losses due to adverse economic conditions. AIG cannot predict how the stress tests would be designed or conducted or whether the results thereof would cause AIG to alter its business practices or affect the perceptions of regulators, rating agencies, customers, counterparties or investors about AIG's financial strength.

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

- If AIG is considered a banking entity for purposes of certain provisions in Dodd-Frank referred to as the "Volcker Rule" AIG would become subject to the provisions of Dodd-Frank prohibiting, subject to the rule's exceptions, "proprietary trading" and the sponsorship of, or investment in, hedge, private equity or similar funds. Even if AIG no longer controlled an insured depository institution, AIG might still be subject to additional capital and quantitative limitations under the Volcker Rule.

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

danger of default and presents a systemic risk to U.S. financial stability. AIG is a financial company and its largest U.S. subsidiary is an insurer.

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

Dodd-Frank establishes a Federal Insurance Office (FIO) within the Department of the Treasury to be headed by a director appointed by the Secretary of the Treasury. While not having a general supervisory or regulatory authority over the business of insurance, the director of this office would perform various functions with respect to insurance (other than health insurance), including serving as a non-voting member of the Council and participating in the Council's decisions regarding insurers, potentially including AIG to be designated for stricter prudential regulation. The director is also required to conduct a study on how to modernize and improve the system of insurance regulation in the United States, including by increased national uniformity through either a federal charter or effective action by the states. The FIO may also recommend enhanced regulations to state insurance regulatory bodies.

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

Dodd-Frank establishes the Bureau of Consumer Financial Protection (BCFP) as an independent agency within the FRB to regulate consumer financial products and services offered primarily for personal, family or household purposes. Insurance products and services are not within the BCFP's general jurisdiction, and broker-dealers and investment advisers are not subject to the BCFP's jurisdiction when acting in their registered capacity.

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

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

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

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

make certain disclosures and obtain customer consents or acknowledgements.

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

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

In addition to the adoption of Dodd-Frank in the United States, regulators and lawmakers around the world are actively reviewing the causes of the financial crisis and taking steps to avoid similar problems in the future. The Financial Stability Board (FSB), consisting of representatives of national financial authorities of the G20 nations, has issued a series of frameworks and recommendations intended to produce significant changes in how financial companies, particularly systematically important financial institutions, should be regulated. These frameworks and recommendations address such issues as financial group supervision, capital and solvency standards, systemic economic risk, corporate governance including compensation, and a host of related issues associated with responses to the financial crisis. The FSB has directed the International Association of Insurance Supervisors (the IAIS, headquartered in Basel, Switzerland) to create standards relative to these areas and incorporate them within that body's Insurance Core Principles. IAIS Insurance Core Principles form the baseline threshold for how countries' financial services regulatory efforts are measured relative to the insurance sector. That measurement is made by periodic Financial Sector Assessment Program (FSAP) reviews conducted by the World Bank and the International Monetary Fund and the reports thereon spur the development of country-specific additional or amended regulatory changes. Lawmakers and regulatory authorities in a number of jurisdictions in which AIG's subsidiaries conduct business have already begun implementing legislative and regulatory changes consistent with these recommendations, including proposals governing consolidated regulation of insurance holdings companies by the Financial Services Agency (FSA) in Japan, financial and banking regulation adopted in France and compensation regulations proposed or adopted by the financial regulators in Germany (BaFIN) and the United Kingdom (FSA).

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

Other Regulatory Developments

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

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

Legislation in the European Union could also affect AIG's international insurance operations. The Solvency II Directive (2009/138/EEC), which was adopted on November 25, 2009 and is expected to become effective in January 2013 (Solvency II), reforms the insurance industry's

solvency framework, including minimum capital and solvency requirements, governance requirements, risk management and public reporting standards. The impact on AIG will depend on whether the U.S. insurance regulatory regime is deemed "equivalent" to Solvency II; if the U.S. insurance regulatory regime is not equivalent, then AIG as a group could be required to be supervised under

Solvency II standards. Whether the U.S. insurance regulatory regime will be deemed "equivalent" is still under consideration by European authorities and remains uncertain, so AIG is not currently able to predict the impact of Solvency II.

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

Regulation of Domestic Insurance Subsidiaries

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

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

AIG has taken various steps to enhance the capital positions of the Chartis U.S. and SunAmerica companies. AIG entered into capital maintenance agreements with these companies that set forth procedures through which AIG has provided, and expects to continue to provide, capital support. Also, in order to allow the Chartis U.S. companies to record as an admitted asset at December 31, 2010 certain reinsurance ceded to non-U.S. reinsurers, which has the effect of maintaining the level of the statutory surplus of such companies, AIG obtained and entered into reimbursement agreements for approximately $6.1 billion of letters of credit issued by several commercial banks in favor of certain Chartis and SunAmerica companies and funded trusts totaling $800 million in favor of certain Chartis companies.

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

The statutory surplus of each of AIG's U.S.-based life and property and casualty insurance subsidiaries exceeded RBC minimum required levels as of December 31, 2010.

To the extent that any of AIG's insurance entities would fall below prescribed levels of statutory surplus, it would be AIG's intention to provide appropriate capital or other types of support to that entity, under formal support or capital maintenance agreements or otherwise.

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

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

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

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

Regulation of Domestic Subsidiaries in Foreign Jurisdictions

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

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

See Management's Discussion and Analysis of Financial Condition and Results of Operations Capital Resources and Liquidity Regulation and Supervision and Note 18 to Consolidated Financial Statements.

Competition

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

The insurance industry in particular is highly competitive. Within the United States, Chartis subsidiaries compete with approximately 3,300 other stock companies, specialty insurance organizations, mutual companies and other underwriting organizations. SunAmerica subsidiaries compete in the United States with approximately 1,800 life insurance companies and other participants in related financial services fields. Overseas, AIG's subsidiaries compete for business with the foreign insurance operations of large U.S. insurers and with global insurance groups

and local companies in particular areas in which they are active.

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

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

Other Information about AIG

At December 31, 2010, AIG and its subsidiaries had approximately 63,000 employees.

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

Directors and Executive Officers of AIG

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

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

Robert Benmosche joined AIG as Chief Executive Officer in August 2009. Prior to joining AIG, Mr. Benmosche served as a member of the Board of Directors of Credit Suisse Group since 2002. Mr. Benmosche was former Chairman, President and Chief Executive Officer of MetLife, a leading provider of insurance and other financial services.

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

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

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

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

Information concerning the directors and executive officers of AIG as of February 24, 2011 is set forth below.

Name	Title	Age	Served as Director or Officer Since
Robert H. Benmosche	Director and Chief Executive Officer	66	2009
Laurette T. Koellner	Director	56	2009
Donald H. Layton	Director	60	2010
Christopher S. Lynch	Director	53	2009
Arthur C. Martinez	Director	71	2009
George L. Miles, Jr.	Director	69	2005
Henry S. Miller	Director	65	2010
Robert S. Miller	Chairman	69	2009
Suzanne Nora Johnson	Director	53	2008
Morris W. Offit	Director	74	2005
Ronald A. Rittenmeyer	Director	63	2010
Douglas M. Steenland	Director	59	2009
William N. Dooley	Executive Vice President Investments and Financial Services	58	1992
Peter D. Hancock	Executive Vice President Finance, Risk and Investments	52	2010
David L. Herzog	Executive Vice President and Chief Financial Officer	51	2005
Kristian P. Moor	Executive Vice President Domestic General Insurance	51	1998
Thomas A. Russo	Executive Vice President Legal, Compliance, Regulatory Affairs, Government Affairs and General Counsel	67	2010
Brian T. Schreiber	Executive Vice President Treasury and Capital Markets	45	2002
Nicholas C. Walsh	Executive Vice President Foreign General Insurance	60	2005
Jay S. Wintrob	Executive Vice President SunAmerica Financial Group	53	1999
Jeffrey J. Hurd	Senior Vice President Human Resources and Communications	44	2010
Sid Sankaran	Senior Vice President and Chief Risk Officer	33	2010
Monika M. Machon	Senior Vice President and Chief Investment Officer	50	2009
Charles S. Shamieh	Senior Vice President Corporate Chief Actuary	44	2011

Item 1A. Risk Factors

We were significantly and adversely affected by the market turmoil in late 2008 and early 2009 and, despite the recovery in the markets in mid-2009 through 2010 and our recapitalization activities, are subject to significant risks, as discussed below.

The risks described below are not the only ones we face. Additional risks that are not currently known to us or that we currently believe are immaterial may also adversely affect our business, results of operations, financial condition or liquidity. Many of these risks are interrelated and occur under similar business and economic conditions, and the occurrence of certain of them may in turn cause the emergence, or exacerbate the effect, of others. Such a combination could materially increase the severity of the impact on us. As a result, should certain of these risks emerge, we may need to raise additional capital or obtain other sources of commercial funding, such as through additional credit facilities, which may not be available.

Credit and Financial Strength Ratings

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

Further downgrades of the IFS ratings of our insurance companies may prevent these companies from offering products and services or result in increased policy cancellations or termination of assumed reinsurance contracts. Moreover, a downgrade in AIG Parent's credit ratings may, under credit rating agency policies concerning the relationship between parent and subsidiary ratings, result in a downgrade of the IFS ratings of our insurance subsidiaries.

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

Based on our financial derivative transactions, including those of AIGFP, outstanding at December 31, 2010 (as if the downgrade by Moody's Investors' Services (Moody's) on January 12, 2011 had occurred on December 31, 2010), a one notch downgrade of our long-term senior debt rating to BBB+ by Standard & Poor's Financial Services LLC, a subsidiary of The McGraw-Hill Companies, Inc (S&P), would have permitted counterparties to make additional collateral calls and permit the counterparties to elect early termination of contracts, resulting in up to approximately $0.7 billion of corresponding collateral postings and termination payments; a one-notch downgrade to Baa2 by Moody's and a two-notch downgrade to BBB by S&P would have resulted in approximately $0.4 billion in additional collateral postings and termination payments above the aforementioned $0.7 billion; and a two-notch downgrade to Baa3 by Moody's and a three-notch downgrade to BBB- by S&P would have resulted in approximately $0.2 billion of additional collateral posting and termination payments above the aforementioned $1.1 billion.

Additional collateral postings upon downgrade are estimated based on the factors in the individual collateral posting provisions of the Credit Support Annex (CSA) with each counterparty and current exposure as of December 31, 2010. Factors considered in estimating the termination payments upon downgrade include current

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market conditions, the complexity of the derivative transaction, 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 the 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.

For a further discussion of our liquidity, see Management's Discussion and Analysis of Financial Condition and Results of Operations Capital Resources and Liquidity Liquidity.

Market Conditions

Our businesses, consolidated results of operations and financial condition have been and may continue to be materially and adversely affected by market conditions. Our businesses are highly dependent on the business environment in which they operate. In 2008 and through early 2009, the significant deterioration in worldwide economic conditions materially and adversely affected our businesses. The global financial crisis resulted in a serious lack of liquidity, highly volatile markets, a steep depreciation in asset values across all classes, an erosion of investor and public confidence, a widening of credit spreads, a lack of price transparency in many markets and the collapse or merger of several prominent financial institutions. Difficult economic conditions also resulted in increased unemployment and a severe decline in business activity across a wide range of industries and regions. While the markets and the business environment have generally stabilized and improved in mid- and late 2009 and in 2010, asset values for many asset classes have not returned to previous levels, and business, financial and economic conditions, particularly unemployment levels, continue to be negatively affected. Revenue and budget constraints affecting U.S. municipalities, lending activities and the housing and commercial property markets also continue to have a negative effect on asset values. There can be no assurance that the conditions supporting the recent recovery will continue in the near or long term. If they do not, we may be negatively affected in a number of ways, including, but not limited to:

- declines in the valuation and performance of our investment portfolio;
- declines in the value of our remaining shares in AIA and the MetLife securities received in the disposition of ALICO;
- unrealized market valuation losses on our super senior credit default swap portfolio;
- increased credit losses;
- impairments of goodwill and other long-lived assets;
- additional statutory capital requirements
- limitations on our ability to recover deferred tax assets;
- a decline in new business levels;
- increased liability associated with interest rate guarantees in life annuity products;

an increase in policy surrenders and cancellations; and

a writeoff of deferred policy acquisition costs (DAC).

Investment Portfolio and Concentration of Investments, Insurance and Other Exposures

The value of our investment portfolio is subject to a number of risks and uncertainties, including changes in interest rates. Changes in interest rates can negatively affect the performance of our investment securities. Interest rates are highly sensitive to many factors, including monetary policies, domestic and international economic and political issues and other factors beyond our control. Changes in monetary policy or other factors may cause interest rates

to rise, which would adversely affect the value of the fixed income securities that we hold and could adversely affect our ability to sell these securities. In addition, the evaluation of available-for-sale securities for other-than-temporary impairments is a quantitative and qualitative process that is subject to significant management judgment.

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

The value of our investment portfolio is exposed to the creditworthiness of state and municipal governments. We hold a large portfolio of state and municipal bonds ($46.6 billion at December 31, 2010), primarily in Chartis, and, because of the budget deficits that most states and many municipalities are continuing to incur in the current economic environment, the risks associated with this portfolio have increased. Negative publicity surrounding certain states and municipal issues has negatively affected the value of our portfolio and reduced the liquidity in the state and municipal bond market. Defaults, or the prospect of imminent defaults, by the issuers of state and municipal bonds could cause our portfolio to decline in value and significantly reduce the portfolio's liquidity, which could also adversely affect AIG Parent's liquidity if AIG Parent then needed, or was required by its capital maintenance agreements, to provide additional capital support to the insurance subsidiaries holding the affected state and municipal bonds. As with our fixed income security portfolio generally, rising interest rates would also negatively affect the value of our portfolio of state and municipal bonds and could make those instruments more difficult to sell. A decline in the liquidity or market value of these instruments, which are carried at fair value for statutory purposes, could also result in a decline in the Chartis entities' capital ratios and, in turn, require AIG Parent to provide additional capital to those entities.

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

Casualty Insurance Underwriting and Reserves

Casualty insurance liabilities are difficult to predict and may exceed the related reserves for losses and loss expenses. Although we regularly review the adequacy of the established Liability for unpaid claims and claims adjustment expense and conduct an extensive analysis of our reserves at each year end, there can be no assurance that our loss reserves will not develop adversely and have a material adverse effect on our results of operations. Estimation of ultimate net losses, loss expenses and loss reserves is a complex process for long-tail casualty lines of business, which include excess and umbrella liability, D&O, professional liability, medical malpractice, workers' compensation, general liability, products liability and related classes, as well as for asbestos and environmental exposures. Generally, actual historical loss development factors are used to project future loss development. However, there can be no assurance that future loss development patterns will be the same as in the past.

Moreover, any deviation in loss cost trends or in loss development factors might not be discernible for an extended period of time subsequent to the recording of the initial loss reserve estimates for any accident year. For example, in the fourth quarter of 2010, we recorded a net charge of $4.2 billion to strengthen Chartis loss reserves, reflecting adverse development in classes of business with long reporting tails, primarily asbestos (which includes policies written more than 25 years ago), excess casualty, excess workers' compensation and primary workers' compensation. Thus, there is the potential for reserves with respect to a number of years to be significantly affected by changes in loss cost trends or loss development factors that were relied upon in setting the reserves. These changes in loss cost trends or loss development factors could be attributable to changes in inflation or in the judicial environment, or in other social or economic phenomena affecting claims, such as the effects that the recent disruption in the credit markets could have on reported claims under D&O or professional liability coverages. For a further discussion of our loss reserves, see Management's Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Segment Results Chartis Operations Liability for unpaid claims and claims adjustment expense and Critical Accounting Estimates Liability for unpaid claims and claims adjustment expense (Chartis).

Competition

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

The insurance industry in particular is highly competitive. Within the U.S., Chartis subsidiaries compete with approximately 3,300 other stock companies, specialty insurance organizations, mutual companies and other underwriting organizations. SunAmerica subsidiaries compete in the U.S. with approximately 1,800 life insurance companies and other participants in related financial services fields. Overseas, our subsidiaries compete for business with the foreign insurance operations of large U.S. insurers and with global insurance groups and local companies.

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

Guarantees Within Variable Annuities

Guarantees Within Certain of Our Products May Decrease Our Earnings and Increase the Volatility of Our Results. Certain variable annuity products that we offer guarantee a certain level of benefits to the policyholder. These guarantee features include guaranteed minimum death benefits (GMDB), guaranteed minimum income benefits (GMIB), guaranteed minimum withdrawal benefits (GMWB) and guaranteed minimum account value benefits (GMAV). At December 31, 2010, our net liabilities associated with these guaranteed benefits, representing the aggregate amount of the benefits in excess of the related account values, were $613 million. We use reinsurance in combination with derivative instruments to mitigate the exposure associated with these liabilities, and while we believe that these and other actions have mitigated the risks related to these guaranteed benefits, our exposure is not fully hedged, and we remain liable in the event that reinsurers or counterparties are unable or unwilling to pay. In addition, downturns in equity markets, increased equity volatility or reduced interest rates could result in an increase in the valuation of the future policy benefits or policyholder account balances, increasing the liabilities associated with the guaranteed benefits and resulting in a reduction in our net income.

Adjustments to Deferred Policy Acquisition Costs for Life Insurance and Retirement Services Companies

Interest rate fluctuations, increased surrenders, investment returns and other events may require our subsidiaries to accelerate the amortization of deferred policy acquisition costs (DAC), which could adversely affect our results of operations. DAC represents the costs that vary with and are related primarily to the acquisition of new and renewal insurance and annuity contracts. When interest rates rise or customers lose confidence in a company, policy loans and policy surrenders and withdrawals of life insurance policies and annuity contracts may increase as policyholders seek to buy products with perceived higher returns or more stability, resulting in an acceleration of the amortization of DAC. To the extent such amortization exceeds surrender or other charges earned upon surrender and withdrawals of certain life insurance policies and annuity contracts, our results of operations could be negatively affected.

DAC for both insurance-oriented and investment-oriented products, as well as retirement services products, is reviewed for recoverability, which involves estimating the future profitability of current business. This review involves significant management judgment. If future profitability is substantially lower than estimated, we could be required to accelerate DAC amortization, and such acceleration could adversely affect our results of operations. For a further discussion of DAC, see Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Estimates and Notes 2 and 10 to the Consolidated Financial Statements.

Catastrophe Exposures

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

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

Reinsurance

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

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

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Indemnity Obligations

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

Regulation

The enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act will subject us to substantial additional federal regulation, which may materially and adversely affect our businesses, results of operations, cash flows, financial condition and credit ratings. On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank), which effects comprehensive changes to the regulation of financial services in the United States, was signed into law. Dodd-Frank directs existing and newly created government agencies and bodies to promulgate regulations implementing the law, an ongoing process anticipated to continue over the next few years. We cannot predict with certainty the requirements of the regulations ultimately adopted or how or whether Dodd-Frank and such regulations will affect our businesses, results of operations, cash flows or financial condition, require us to raise additional capital or result in a downgrade of our credit ratings.

We may become subject to the examination, enforcement and supervisory authority of the FRB as a savings and loan holding company or a Designated Financial Company. In such an event:

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

If we are designated a Designated Financial Company:

- We may become subject to stress tests to determine whether, on a consolidated basis, we have the capital necessary to absorb losses due to adverse economic conditions.
- We would be subject to stricter prudential standards not yet specified, including stricter requirements and limitations relating to risk-based capital, leverage, liquidity and credit exposure, as well as overall risk management requirements, management interlock prohibitions and a requirement to maintain a plan for rapid and orderly dissolution in the event of severe financial distress.
- We would become subject to a new early remediation regime process, the details of which are not yet established, to be administered by the FRB.

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

We would be required to maintain a debt-to-equity ratio of no more than 15:1.

The FRB may:

- limit our ability to merge with, acquire, consolidate with, or become affiliated with another company;
- restrict our ability to offer specified financial products;
- require us to terminate specified activities;

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

If we continue to control AIG Federal Savings Bank or another insured depository institution, we would become subject to the "Volcker Rule", which would place limits on "proprietary trading" and the sponsorship of, or investment in, hedge, private equity or similar funds. Such prohibitions could substantially impact our investment business as it is currently managed. The Volcker Rule contains an exception for trading by insurance companies for their general account, but the extent of this exception cannot be predicted. Even if we no longer controlled an insured depository institution, we might still be subject to additional capital and quantitative limitations under the Volcker Rule.

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

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

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

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

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

Requirements of the USA PATRIOT Act, the Office of Foreign Assets Control and similar laws that apply to us may expose us to significant penalties. The operations of certain of our subsidiaries are subject to laws and regulations,

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

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

Change in Control

Our ability to utilize tax losses and credits carryforwards to offset future taxable income may be significantly limited if we experience an "ownership change" under the Internal Revenue Code. As of December 31, 2010, we had a U.S. federal net operating loss carryforward of approximately $32.3 billion, $27.8 billion in capital loss carryforwards and $4.6 billion in foreign tax credits (Tax Losses and credits carryforwards). Our ability to utilize such tax attributes to offset future taxable income may be significantly limited if we experience an "ownership change" as defined in Section 382 of the Internal Revenue Code of 1986, as amended (the Code). In general, an ownership change will occur when the percentage of AIG Parent's ownership (by value) of one or more "5-percent shareholders" (as defined in the Code) has increased by more than 50 percent over the lowest percentage owned by such shareholders at any time during the prior three years (calculated on a rolling basis). An entity that experiences an ownership change generally will be subject to an annual limitation on its pre-ownership change tax losses and credits carryforwards equal to the equity value of the corporation immediately before the ownership change, multiplied by the long-term, tax-exempt rate posted monthly by the IRS (subject to certain adjustments). The annual limitation would be increased each year to the extent that there is an unused limitation in a prior year. The limitation on our ability to utilize tax losses and credits carryforwards arising from an ownership change under Section 382 would depend on the value of our equity at the time of any ownership change.

While the Department of the Treasury owns more than 50 percent of AIG Common Stock, under guidance issued by the Internal Revenue Service, we will not be treated as having experienced an ownership change. However, once the Department of the Treasury's ownership of outstanding AIG Common Stock falls below 50 percent, it is possible for us to experience an ownership change as a result of purchases of AIG Common Stock by "5-percent shareholders". For the purpose of determining whether there has been an "ownership change", the change in ownership as a result of purchases by "5-percent shareholders" will be aggregated with certain changes in ownership that occurred over the three-year period ending on the date of such purchases, including, for example, the sale of AIG Common Stock that was issued in exchange for the shares of AIG's Series C Perpetual, Convertible, Participating Preferred Stock, par value $5.00 per share (the Series C Preferred Stock), but excluding the issuance of the AIG Common Stock that was issued in exchange for the shares of AIG's Series E Fixed Rate Non-Cumulative Perpetual Preferred Stock, par value $5.00 per share (the Series E Preferred Stock), and the shares of AIG's Series F Fixed Rate Non-Cumulative Perpetual Preferred Stock, par value $5.00 per share (the Series F Preferred Stock). If we were to experience an "ownership change", it is possible that a significant portion of our tax losses and credits carryforwards could expire before we would be able to use them to offset future taxable income.

Foreign Operations

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

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

Legal Proceedings

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

Use of Estimates

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

Aircraft Leasing Business

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

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

Liquidity

If our internal sources of liquidity are insufficient to meet our needs, we may become dependent on third-party financing, external capital markets or other sources of liquidity, which may not be available or could be prohibitively expensive. We need liquidity to pay our operating expenses, interest on our debt and certain maturing debt obligations and to meet any statutory capital requirements of our subsidiaries. If we have insufficient liquidity to meet our needs, we may be required to raise additional capital or obtain other sources of commercial funding. The availability of any additional financing depends on a variety of factors, including, but not limited to, general market conditions, the volume of trading activities, the overall availability of credit, regulatory actions, our credit ratings and credit capacity, as well as the possibility that customers, lenders or investors could develop a negative perception of our long- or short-term financial prospects. Disruptions, volatility and uncertainty in the financial markets, to the extent they persist or recur, may also limit our ability to access external capital markets at times and on terms favorable to us and to meet our capital and liquidity needs. For example, our inability to access the capital markets in September 2008 led to the FRBNY providing us financing under the FRBNY Credit Facility. Furthermore, if our internal sources of liquidity prove to be insufficient, we may be unable to obtain additional financing on favorable terms, if at all. For a further discussion of liquidity, see Management's Discussion and Analysis of Financial Condition and Results of Operations Capital Resources and Liquidity.

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

AIG Parent's ability to support our subsidiaries is limited. Historically, AIG Parent has provided capital and liquidity to our subsidiaries to maintain regulatory capital ratios, comply with rating agency requirements and meet unexpected cash flow obligations, in some cases under support or capital maintenance agreements. If AIG Parent is unable to provide support to a subsidiary having an immediate capital or liquidity need, the subsidiary could become insolvent or, in the case of an insurance subsidiary or other regulated entity, could be seized by its regulator. In the event of a catastrophe, reserve strengthening or other event, AIG Parent may be required to provide capital to one or more of our regulated subsidiaries. For example, AIG Parent recently provided $3.7 billion of capital to the Chartis insurance companies as a result of the reserve strengthening in the fourth quarter of 2010. AIG Parent also expects to enter into additional capital maintenance agreements with certain of our U.S. insurance subsidiaries that will require it to contribute capital if specific risk-based capital (RBC) thresholds are triggered.

Certain of the investments held by our subsidiaries are illiquid and/or are difficult to sell, or to sell in significant amounts or at acceptable prices, to generate cash to meet their needs. Our subsidiaries' investments in certain securities, including certain fixed income securities and certain structured securities, private equity securities, investment partnerships, mortgage loans, flight equipment, finance receivables and real estate, which had a collective fair value of $103 billion at December 31, 2010, are illiquid or may not be disposed of quickly. Further, we have a significant remaining stake in AIA and have a significant position in the securities of MetLife, both of which are subject to restrictions on transfer and hedging. In addition, the steep decline in the U.S. real estate market and tight credit markets have materially adversely affected the liquidity of our other securities portfolios, including our residential and commercial mortgage-related securities and investment portfolios. In the event additional liquidity is required by one or more of our subsidiaries and AIG Parent is unable to provide liquidity, it may be difficult to generate additional liquidity by selling, pledging or otherwise monetizing the less liquid investments described above.

American International Group, Inc., and Subsidiaries

Special Purpose Vehicle Intercompany Loans and Pledge of Designated Entities

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

Furthermore, so long as the Department of the Treasury holds the preferred interests (the SPV Preferred Interests) in the AIA SPV and the ALICO SPV, the Department of the Treasury will have the right, subject to existing contractual restrictions, to require us to dispose of our ordinary shares of AIA and the MetLife securities we received from the sale of ALICO. The consent of the Department of the Treasury will also be required for us to take specified significant actions with respect to the Designated Entities, including initial public offerings, sales of the businesses and significant acquisitions or dispositions and incurrence of indebtedness above specified levels. If any SPV Preferred Interests are outstanding on May 1, 2013, the Department of the Treasury will have the right to compel the sale of all or a portion of one or more of the Designated Entities on terms that it will determine. These rights could have a material adverse effect on the operations of the Designated Entities and could adversely affect the value of the Designated Entities.

Controlling Shareholder

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

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

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

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

- the right to participate in any registered offering of AIG Common Stock by us;
- the right to demand no more than twice in any 12-month period that we effect a registered marketed offering of our shares after the earlier of August 15, 2011 and the date of our completion of a primary equity offering;

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

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

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

Employees

Mr. Benmosche may be unable to continue to provide services to AIG due to his health. Mr. Robert Benmosche, the President and Chief Executive Officer of AIG, has been diagnosed with cancer and has been undergoing treatment for his disease. Following a briefing by a physician fully aware of Mr. Benmosche's medical condition, test results, and prognosis, the AIG Board of Directors, while recognizing that in matters of cancer circumstances can change, anticipates that Mr. Benmosche should be able to serve in his role as AIG President and CEO over the next twelve to eighteen months. However, Mr. Benmosche's condition may change and prevent him from continuing to perform these roles. In such a case, the AIG Board of Directors would need to implement its succession plan and either have Mr. Robert S. Miller act as interim President and Chief Executive Officer or have a permanent replacement assume Mr. Benmosche's responsibilities.

The limitations on incentive compensation contained in the American Recovery and Reinvestment Act of 2009 and the restrictions placed on compensation by the Special Master for TARP Executive Compensation and in our agreement with the Department of the Treasury (the Master Transaction Agreement) may adversely affect our ability to attract talent and retain and motivate our highest performing employees. The American Recovery and Reinvestment Act of 2009 (Recovery Act) contains provisions which, as implemented by the Department of the Treasury in its Interim Final Rule, restrict bonus and other incentive compensation payable to the five executives named in a company's proxy statement and the next 20 highest paid employees of companies that received more than $500 million of TARP funds. Pursuant to the Recovery Act, the Office of the Special Master for TARP Executive Compensation (Special Master) issued Determination Memoranda with respect to our named executive officers and 20 highest paid employees, and reviewed our compensation arrangements for our next 75 most highly compensated employees and issued a Determination Memorandum on their compensation structures, which placed significant new restrictions on their compensation as well. Historically, we have embraced a pay-for-performance philosophy. Based on the limitations placed on incentive compensation by the Determination Memoranda issued by the Special Master, it is unclear whether, for the foreseeable future, we will be able to create a compensation structure that permits us to attract talent and retain and motivate our most senior and most highly compensated employees and other high performing employees who become subject to the purview of the Special Master. The restrictions on our ability to attract talent and retain and motivate our highest performing employees may affect our ability to strengthen our businesses and prepare and make required filings in a timely manner with the SEC and other federal, state and foreign regulators.

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

Electronic Data Systems and Handling of Confidential Information

If we are unable to maintain the availability of our electronic data systems and safeguard the security of our data, our ability to conduct business may be compromised, which could adversely affect our consolidated financial condition or results of operations. We use computer systems to store, retrieve, evaluate and utilize customer and company data and information. These systems in turn, rely upon third-party systems. Our business is highly dependent on our ability to access these systems to perform necessary business functions, including providing insurance quotes, processing premium payments, making changes to existing policies, filing and paying claims, administering variable annuity products and mutual funds, providing customer support and managing our investment portfolios. Systems failures or outages could compromise our ability to perform these functions in a timely manner, which could harm our ability to conduct business and hurt our relationships with our business partners and customers. In the event of a natural disaster, a computer virus, a terrorist attack or other disruption inside or outside the U.S., our systems may be inaccessible to our employees, customers or business partners for an extended period of time, and our employees may be unable to perform their duties for an extended period of time if our data or systems are disabled or destroyed. Our systems could also be subject to physical or electronic break-ins or unauthorized tampering. This may impede or interrupt our business operations and could adversely affect our consolidated financial condition or results of operations.

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

Regulatory Capital Credit Default Swap Portfolio

A deterioration in the credit markets may cause us to recognize unrealized market valuation losses which could have an adverse effect on our consolidated financial condition, consolidated results of operations or liquidity. Moreover, depending on how and when the Basel I capital standards are phased out, the period of time that AIGFP remains at risk for such deterioration could be longer than anticipated by AIGFP. A total of $38.1 billion in net notional amount of the super senior credit default swap (CDS) portfolio of AIGFP as of December 31, 2010, represented derivatives written for financial institutions, principally in Europe, primarily for the purpose of providing regulatory capital relief rather than for arbitrage purposes. The net fair value of the net derivative asset for these CDS transactions was $173 million at December 31, 2010.

The regulatory benefit of these transactions for AIGFP's financial institution counterparties was generally derived from the capital regulations promulgated by the Basel Committee on Banking Supervision known as Basel I. In December 2010, the Basel Committee on Banking Supervision finalized a new framework for international capital and liquidity standards known as Basel III, which, when fully implemented, may reduce or eliminate the regulatory benefits to certain counterparties from these transactions, and may thus impact the period of time that such counterparties are expected to hold the positions. AIGFP continues to reassess the expected maturity of this portfolio. As of December 31, 2010, AIGFP estimated that the weighted average expected maturity of the portfolio was 3.16 years.

Given the current performance of the underlying portfolios, the level of subordination of credit protection written by AIGFP and AIGFP's own assessment of the credit quality of the underlying portfolio, as well as the risk mitigants inherent in the transaction structures, AIGFP does not expect that it will be required to make payments pursuant to the contractual terms of those transactions providing regulatory capital relief. AIGFP will continue to assess the valuation of this portfolio and monitor developments in the marketplace. Given the potential deterioration in the credit markets and the risk that AIGFP's expectations with respect to the

termination of these transactions by its counterparties may not materialize, there can be no assurance that we will not recognize unrealized market valuation losses from this portfolio in future periods or be required to post collateral. Depending on how and when the Basel I regulatory requirements are phased out, we could also remain at risk for a longer period of time than currently anticipated.

Item 1B. Unresolved Staff Comments

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

Item 2. Properties

AIG and its subsidiaries operate from approximately 500 offices in the United States and numerous offices in over 75 foreign countries. The following offices are located in buildings owned by AIG and its subsidiaries:

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

In addition, offices in more than 30 foreign countries and jurisdictions including Bermuda, Chile, Hong Kong, the Philippines, Japan, the U.K., Singapore, Malaysia, Taiwan and Thailand are located in buildings owned by AIG and its subsidiaries. The remainder of the office space utilized by AIG and its subsidiaries is leased. AIG believes that its leases and properties are sufficient for its current purposes.

Item 3. Legal Proceedings

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

Part II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

AIG's common stock is listed on the New York Stock Exchange, as well as on the stock exchanges in Ireland and Tokyo.

The following table presents the high and low closing sale prices on the New York Stock Exchange Composite Tape and the dividends paid per share of AIG Common Stock for each quarter of 2010 and 2009.

	2010			2009		
	High	Low	Dividends Paid	High	Low	Dividends Paid
First quarter	**$ 36.24**	**$ 22.16**	**$ -**	$ 34.80	$ 7.00	$ -
Second quarter	**44.51**	**34.05**	**-**	40.20	21.00	-
Third quarter	**41.64**	**33.10**	**-**	50.23	9.48	-
Fourth quarter	**59.38**	**38.86**	**-**	45.90	28.06	-

The approximate number of record holders of AIG Common Stock as of January 31, 2011 was 45,282.

AIG's table of equity compensation plans previously approved by security holders and equity compensation plans not previously approved by security holders will be included in the definitive proxy statement for AIG's 2011 Annual Meeting of Shareholders, which will be filed with the SEC no later than 120 days after the close of AIG's fiscal year pursuant to Regulation 14A.

Dividend Restrictions

Pursuant to terms of the AIG Series G Preferred Stock, AIG is not able to declare or pay any cash dividends on AIG Common Stock while the AIG Series G Preferred Stock is outstanding. In addition, AIG was unable to pay dividends in 2009 or 2010 under the terms of other series of AIG preferred stock that were outstanding from November 2008 through January 14, 2011.

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

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Performance Graph

The following Performance Graph compares the cumulative total shareholder return on AIG Common Stock for a five-year period (December 31, 2005 to December 31, 2010) with the cumulative total return of the S&P's 500 stock index (which includes AIG) and a peer group of companies consisting of nine insurance companies to which AIG compares its business and operations:

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

FIVE-YEAR CUMULATIVE TOTAL SHAREHOLDER RETURNS
Value of $100 Invested on December 31, 2005

					As of December 31,	
	2005	**2006**	**2007**	**2008**	**2009**	**2010**
AIG	$ 100.00	$ 106.05	$ 87.24	$ 2.54	$ 2.42	$ 4.65
S&P 500	100.00	115.79	122.16	76.96	97.33	111.99
Peer Group	100.00	115.71	120.86	69.93	81.61	99.51

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American International Group, Inc., and Subsidiaries

Item 6. Selected Financial Data

The Selected Consolidated Financial Data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and accompanying notes included elsewhere herein. 2010 reflects the effects of AIG's sales of assets and therefore is not fully comparable to prior periods.

Years Ended December 31, *(in millions, except per share data)*	**2010**	**2009**	**2008**	**2007**	**2006**
Revenues:					
Premiums and other considerations	**$ 48,029**	$ 51,239	$ 63,137	$ 61,581	$ 57,861
Net investment income	**20,930**	18,987	10,453	23,933	22,303
Net realized capital losses	**(279)**	(5,210)	(46,794)	(3,248)	(324)
Unrealized market valuation gains (losses) on Capital Markets super senior credit default swap portfolio	**598**	1,418	(28,602)	(11,472)	-
Other income	**8,023**	8,918	(5,034)	10,723	6,331
Total revenues	**77,301**	75,352	(6,840)	81,517	86,171
Benefits, claims and expenses:					
Policyholder benefits and claims incurred	**45,874**	50,015	51,036	50,928	47,220
Policy acquisition and other insurance expenses	**15,820**	15,864	20,833	15,644	15,404
Interest expense	**7,859**	14,238	15,713	3,483	2,476
Restructuring expenses and related asset impairment and other expenses	**574**	1,149	771	-	-
Net (gain) loss on sale of divested businesses and properties[(a)]	**(17,767)**	1,271	-	-	-
Other expenses	**7,005**	7,122	7,836	6,728	4,762
Total benefits, claims and expenses	**59,365**	89,659	96,189	76,783	69,862
Income (loss) from continuing operations before income tax expense (benefit) and cumulative effect of change in accounting principles[(b)]	**17,936**	(14,307)	(103,029)	4,734	16,309
Income tax expense (benefit)	**5,859**	(1,489)	(9,683)	125	4,708
Income (loss) from continuing operations before cumulative effect of change in accounting principles	**12,077**	(12,818)	(93,346)	4,609	11,601
Income (loss) from discontinued operations, net of tax	**(2,064)**	505	(7,041)	2,879	3,549
Net income (loss)	**10,013**	(12,313)	(100,387)	7,488	15,150
Net income (loss) attributable to AIG	**7,786**	(10,949)	(99,289)	6,200	14,048
Earnings per common share attributable to AIG:					
Basic					
Income (loss) from continuing operations before cumulative effect of change in accounting principles	**14.75**	(93.69)	(704.26)	26.32	81.16
Income (loss) from discontinued operations	**(3.15)**	3.21	(52.59)	21.66	26.31
Cumulative effect of change in accounting principles, net of tax	**-**	-	-	-	0.26
Net income (loss) attributable to AIG	**11.60**	(90.48)	(756.85)	47.98	107.73
Diluted					
Income (loss) before cumulative effect of change in accounting principles	**14.75**	(93.69)	(704.26)	26.18	80.76
Income (loss) from discontinued operations	**(3.15)**	3.21	(52.59)	21.55	26.16
Cumulative effect of change in accounting principles, net of tax	**-**	-	-	-	0.26
Net income (loss) attributable to AIG	**11.60**	(90.48)	(756.85)	47.73	107.18
Dividends declared per common share	**-**	-	8.40	15.40	13.00

Year-end balance sheet data:

Total investments	**410,412**	601,165	636,912	829,468	767,812
Total assets	**683,443**	847,585	860,418	1,048,361	979,414
Commercial paper and other short-term debt	**-**	4,739	15,718	13,114	13,028
Long-term debt[(c)]	**106,461**	136,733	177,485	162,935	135,650
Total AIG shareholders' equity	**85,319**	69,824	52,710	95,801	101,677
Total equity	**113,239**	98,076	60,805	104,273	107,037
Other data (from continuing operations):					
Other-than-temporary impairments	**3,039**	6,696	41,867	4,212	885
Goodwill impairment charges	**-**	693	3,744	-	-
Adjustment to federal and foreign deferred tax valuation allowance	**1,486**	3,137	20,121	212	38
Amortization of prepaid commitment fee	**3,424**	8,311	9,250	-	-
Catastrophe-related losses	**$ 1,076**	$ 53	$ 1,840	$ 276	$ -

(a)

Reflects a $16.3 billion gain from shares sold in the initial public offering of AIA Group Limited.

(b)

Reduced by fourth quarter reserve strengthening charges of $4.2 billion and $2.2 billion in 2010 and 2009, respectively, related to the annual review of Chartis loss and loss adjustment reserves.

(c)

Includes that portion of long-term debt maturing in less than one year. See Note 15 to the Consolidated Financial Statements.

See Note 2(y) to the Consolidated Financial Statements for effects of adopting new accounting standards.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Statement Regarding Forward-Looking Information

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

- the timing of the disposition of the ownership position of the United States Department of the Treasury (Department of the Treasury) in AIG;
- the timing and method of repayment of the preferred interests (the SPV Preferred Interests) in AIA Aurora LLC and ALICO Holdings LLC (together, the SPVs) held by the Department of the Treasury;
- AIG's exposures to subprime mortgages, monoline insurers and the residential and commercial real estate markets;
- AIG's credit exposures to state and municipal bond issuers;
- AIG's strategy for risk management;
- AIG's ability to retain and motivate its employees; and
- AIG's strategy for customer retention, growth, product development, market position, financial results and reserves.

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

- actions by credit rating agencies;
- changes in market conditions;
- the occurrence of catastrophic events;
- significant legal proceedings;
- concentrations in AIG's investment portfolios, including its municipal bond portfolio;

- judgments concerning casualty insurance underwriting and reserves;
- judgments concerning the recognition of deferred tax assets; and
- such other factors as are discussed throughout this Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) and in Item 1A. Risk Factors of this Annual Report on Form 10-K.

AIG is not under any obligation (and expressly disclaims any obligation) to update or alter any projection or other statement, whether written or oral, that may be made from time to time, whether as a result of new information, future events or otherwise.

Use of Non-GAAP Measures

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

Underwriting profit (loss) is utilized to report results for Chartis operations. Operating income (loss), which is before net realized capital gains (losses) and related DAC and sales inducement asset (SIA) amortization and goodwill impairment charges, is utilized to report results for SunAmerica Financial Group (SunAmerica) operations. Management believes that these measures enhance the understanding of the underlying profitability of the ongoing operations of these businesses and allow for more meaningful comparisons with AIG's insurance competitors.

Executive Overview

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

Highlights

AIG has completed the following significant milestones in connection with executing its recapitalization plan (the Recapitalization), raising capital and executing its asset disposition plan:

Recapitalization and Raising Capital

- On January 14, 2011 (the Closing), AIG completed the Recapitalization, which included repaying and terminating the credit facility provided by the Federal Reserve Bank of New York (the FRBNY, and such credit facility, the FRBNY Credit Facility), applying proceeds from the AIA Group Limited (AIA) initial public offering and American Life Insurance Company (ALICO) sale to partially repay the government's ownership interests in special purpose vehicles that held AIA and ALICO, and exchanging preferred stock held by the Department of the Treasury and the AIG Credit Facility Trust (the Trust) for AIG Common Stock. As a result of the termination of the FRBNY Credit Facility, AIG expects to record a net $3.3 billion pre-tax charge in the first quarter of 2011, primarily representing the accelerated amortization of the prepaid commitment fee asset.

- During 2010, International Lease Finance Corporation (ILFC) raised a total of $9.8 billion in debt financings and entered into an unsecured $2.0 billion three-year revolving credit facility in January 2011.

- On December 23, 2010, AIG entered into 364-day and three-year bank credit facilities totaling $3 billion and Chartis, Inc. entered into a one-year $1.3 billion letter of credit facility.

- On December 8, 2010, AIG established a $500 million contingent liquidity facility.

- On November 30, 2010, AIG issued $2.0 billion in senior debt in its first bond sale since the summer of 2008.

- On November 24, 2010, AIG exchanged 49,474,600 of its Equity Units for 4,881,667 shares of AIG Common Stock and $162 million in cash.

Sales of Businesses and Specific Asset Dispositions

- On February 1, 2011, AIG completed the sale of its Japan-based life insurance subsidiaries, AIG Star Life Insurance Co., Ltd. (AIG Star) and AIG Edison Life Insurance Company (AIG Edison), to Prudential Financial, Inc., for $4.8 billion, consisting of $4.2 billion in cash and $0.6 billion in the assumption of third-party debt.

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

On November 30, 2010, AIG completed the sale of 80 percent of American General Finance Inc. (AGF) and retained a 20 percent economic interest in the AGF business.

- On November 1, 2010, AIG completed the sale of ALICO to MetLife, Inc. (MetLife) for approximately $16.2 billion ($7.2 billion in cash and the remainder in securities of MetLife).

- On October 29, 2010, AIG sold, in an initial public offering, 8.08 billion shares (or 67 percent) of AIA for $20.51 billion.

AIG Parent had $14.5 billion of actual and contingent liquidity at February 16, 2011. As a result of the foregoing and additional non-core asset sales and internal liquidity repositioning transactions, AIG has concluded that it has sufficient liquidity to satisfy its future liquidity requirements, including reasonably foreseeable contingencies or events.

See Capital Resources and Liquidity herein and Note 4 to the Consolidated Financial Statements for additional information on these transactions.

2010 Financial Overview

AIG's income from continuing operations before income taxes amounted to $17.9 billion in 2010 compared to a loss of $14.3 billion in 2009. The improvement of $32.2 billion compared to 2009 reflects significant divestiture activity discussed further below as well as the following additional items:

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

- a decline in interest expense on the FRBNY Credit Facility, primarily due to lower amortization of the prepaid commitment asset, including accelerated amortization. Total amortization declined from $8.3 billion in 2009 to $3.4 billion in 2010;

- a reduction in net realized capital losses of $4.9 billion as discussed in Consolidated Results Net Realized Capital Gains (Losses);

- an improvement of $2.7 billion in asset management pre-tax earnings, reflecting a portion of the gain recorded on the Tokyo headquarters sale discussed above, decreases in impairment charges on proprietary real estate and private equity investments and the effect of goodwill impairment charges recorded in 2009;

- an increase of $1.9 billion in net investment income, primarily driven by higher valuation gains associated with AIG's interests in Maiden Lane II LLC (ML II) and Maiden Lane III LLC (ML III) (together, the Maiden Lane Interests) as well as increased income from partnership investment; and

- an improvement in underwriting results of $2.0 billion for Mortgage Guaranty operations primarily due to lower claims and claims adjustment expenses, commutations and favorable prior year reserve development arising from increased cures, rescissions and claim denials.

These improvements were partially offset by the following:

an increased underwriting loss for Chartis reflecting a net reserve strengthening charge of $4.2 billion in the fourth quarter of 2010 primarily related to its asbestos, excess casualty, and workers' compensation lines; and

a decline of $2.6 billion in Financial Services pre-tax income, reflecting a reduction in unrealized market valuation gains on the super senior credit default swap portfolio in Capital Markets of $820 million, as well as an increase in ILFC impairment charges of $1.6 billion.

Additionally, AIG recorded a net loss from discontinued operations of $2.1 billion in 2010, compared to net income from discontinued operations of $505 million in 2009. The net loss in 2010 reflected goodwill impairment charges of $4.6 billion related to the sales of ALICO and AIG Star and AIG Edison. See Note 2(k) to the Consolidated Financial Statements and Consolidated Results Discontinued Operations for further discussion.

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

2011 Outlook

Priorities for 2011

AIG is focused on the following priorities for 2011:

- continuing to strengthen and grow AIG's businesses;
- executing one or more primary offerings of AIG Common Stock;
- implementing plans to maximize the value of resources available for repayment of the SPV Preferred Interests held by the Department of the Treasury;
- continuing to build and strengthen the financial and operating systems infrastructure throughout the organization, particularly in financial reporting, financial operations and human resources;
- restructuring AIG's operations consistent with its smaller size and plans to increase its competitiveness;
- completing the active unwind of AIGFP's portfolios by June 30, 2011; and
- closing the Nan Shan sale.

2011 Business Outlook

Chartis

Given current insurance capital levels and overall economic conditions, 2011 will be a challenging year as Chartis expects a weak growth environment in most developed economies. The continued weakness of ratable exposures (i.e. asset values, payrolls, and sales) over the past year and its negative impact on the overall market premium base, and in addition, in the U.S., continued weakness in commercial insurance rates, are likely to continue into much of 2011. In Growth Economies such as Brazil, Turkey, India, and Asia Pacific countries, Chartis anticipates improved growth rates.

In 2011, Chartis expects to continue to execute capital management initiatives by enhancing broad-based risk tolerance guidelines for its operating units and executing underwriting and reinsurance strategies to improve capital ratios and reduce volatility, increase return on equity by line of business and reduce exposure to businesses where inadequate pricing and increased loss trends exist. Chartis will also continue to aggressively pursue cost saving initiatives that were undertaken in the later part of 2010. Further, Chartis plans to continue to attract, retain and develop human capital and continue to build on strategies implemented during 2010 to better align employee performance incentive programs with profitability, capital management, risk management and compliance objectives.

Chartis U.S. expects both gross and net written premiums to remain generally consistent with 2010 levels. However, its business mix is expected to continue to reflect efforts to align risk profile with risk tolerance, with the goal of meeting profitability and capital management objectives. Also, Chartis has initiated a number of steps to address historical experience with respect to adverse development. Changes include exiting certain classes of its excess workers' compensation business, increased actuarial involvement in product pricing and attachments, increased utilization of pricing models with actuarial support, policy form changes, increased policy exclusions and fewer multi-year policies

being offered. As a result, Chartis U.S. expects continued growth within its consumer lines business and an overall decline in certain classes of its commercial lines businesses.

Chartis International expects continued growth of its net written premiums in 2011. Given its well-established franchises and operations, expectations with regards to continued globalization and growth in the gross domestic product within countries included in the Growth Economies region, Chartis International intends to increase its insurance penetration and growth within commercial liability businesses overseas. This growth is expected in the Far East and Growth Economy Regions. Strong pricing discipline in a continued soft market is expected to keep

the Europe Region net written premiums at levels consistent with 2010. Far East growth in 2011 is expected to be attributable to the full-year inclusion of the Fuji Fire & Marine Insurance Company Limited (Fuji) results of operations, compared to only six months for 2010. Further, in connection with this purchase, Chartis recognized certain net intangible liabilities. The amortization of these net intangible liabilities is expected to continue to have a beneficial impact on the 2011 expense ratio.

On February 10, 2011, Chartis announced an all-cash tender offer for the 45.3 percent of outstanding Fuji shares that it does not already own, as well as outstanding stock acquisition rights. The announced offering period began February 14, 2011 and is expected to close on March 24, 2011. Following the completion of the tender offer, Chartis intends to take any additional steps necessary to acquire all remaining shares in Fuji. The cost for all outstanding shares not currently held and related transaction fees is estimated at $590 million and will be funded from available cash within Chartis' insurance companies.

This transaction is consistent with Chartis' strategy to diversify its portfolio of businesses on both a geographic and product line basis and is intended to strengthen Chartis' position in the consolidating Japanese market, while enabling Fuji to benefit from Chartis' global operational resources and financial strength.

Following completion of its annual comprehensive loss reserve review, Chartis recorded a $4.2 billion reserve charge, net of $435 million in discount and loss sensitive business premium adjustments, for the fourth quarter of 2010 to strengthen loss reserves, reflecting adverse development on prior accident years in classes of business with long reporting tails. Four classes asbestos, excess casualty, excess workers' compensation, and primary workers' compensation comprise approximately 80 percent of the total charge. The majority of the strengthening relates to development in accident years 2005 and prior. These adjustments reflect management's current best estimate of the ultimate value of the underlying claims. These liabilities are necessarily subject to the impact of future changes in claim severity and frequency, as well as numerous other factors. Although AIG believes that these estimated liabilities are reasonable, because of the extended period of time over which such claims are reported and settled, the subsequent development of these liabilities in future periods may not conform to the assumptions inherent in their determination and, accordingly, may vary materially from the amounts previously recorded. To the extent actual emerging loss experience varies from the current assumptions used to determine these liabilities, they will be adjusted to reflect actual experience. Such adjustments, to the extent they occur, will be reported in the period recognized. AIG continues to monitor these liabilities and will take active steps to mitigate future adverse development.

Australia has suffered a series of catastrophic floods in 2010 and 2011. Chartis recorded a catastrophe loss in the fourth quarter of 2010 of $139 million and anticipates significant claims from the 2011 floods.

On April 20, 2010, an explosion on the Deepwater Horizon offshore drilling rig, operating in the Gulf of Mexico off the coast of Louisiana, resulted in a fire that led to the sinking of the rig and subsequent oil spill. AIG continues to monitor the casualty exposure to Deepwater Horizon and believes that carried loss reserves at December 31, 2010 are adequate to cover estimated losses attributable to this event. However, AIG's claims estimates may change over time, as the forensic investigation is incomplete, and litigation is in its early stages.

SunAmerica

SunAmerica intends in 2011 to expand its distribution capabilities, reposition its excess cash and liquidity, maintain a strong statutory surplus, pro-actively manage expenses and increase dividends paid to AIG Parent.

SunAmerica intends to improve net investment income results in 2011 by investing its excess cash and liquid assets into longer-term higher-yielding securities to improve spreads, while actively managing credit and liquidity risks. However, acquiring higher-yielding investments that otherwise meet SunAmerica's investment criteria in the current low interest rate environment is expected to remain challenging.

SunAmerica's fixed annuity business is affected by the interest rate environment in several ways. The primary effects are fluctuations in sales volumes related to the absolute level of interest rates and the relative steepness of the yield curve. In low interest rate environments, new sales of fixed annuities tend to be lower as consumers see

less opportunity to improve their return on savings by purchasing a fixed annuity. With respect to yield curves, steep yield curves provide a relative advantage to products such as fixed annuities that have a longer investment horizon than alternative savings products like money market funds and certificates of deposit. After a period of historically low interest rates during the latter part of 2010, interest rates generally increased at the longer part of the yield curve late in the year. This change in the interest rate environment increased the relative attractiveness of fixed annuities compared to alternative products. Should that interest rate environment continue or increase, SunAmerica's fixed annuity sales should improve. If the environment returns to one of lower interest rates, sales volumes would continue to be challenged.

Spreads in the fixed annuity business are largely dependent upon three factors: base yields on the traditional fixed income investments (e.g., bonds, mortgage- and asset-backed securities, commercial mortgages), returns on alternative investments (hedge funds and private equity partnerships), and other income items such as the ML II investment income and call and tender income. Base yields on the core fixed income portfolio are the primary source of investment income and were lower than historical trends in 2009 and 2010 due to high levels of cash and short-term investments accumulated for liquidity in that period. SunAmerica is focused on redeploying those lower-yielding assets into higher-yielding traditional investments. To the extent this reinvestment is achieved, the base investment yield and the spread over the cost of funds on the fixed annuity business should increase. Alternative investment returns are affected by equity markets and the interest rate environment, but generally, a favorable equity market should provide positive returns and also improve investment spreads.

SunAmerica has experienced a recovery of sales in its variable annuity business as various distribution partners have resumed sales of SunAmerica's products during 2010. SunAmerica recently announced that its formerly largest distribution partner for variable annuities has agreed to resume distribution of SunAmerica's products in mid-2011. As a result of broader distribution opportunities and improvement in the equity markets, SunAmerica expects continued improvement in its variable annuity sales.

SunAmerica companies issue variable annuity contracts with guaranteed benefits, primarily in the individual variable annuity business. Those benefits expose SunAmerica to equity market and interest rate risks which SunAmerica seeks to mitigate with a dynamic hedging program. The fees charged for guaranteed benefits were generally set with the intent that fees would, over time, be sufficient to fund the hedging instruments and pay potential claims under those benefits. In response to the difficult market environment of recent years that has increased the cost of funding the hedging instruments, SunAmerica adjusted the levels of guarantees and changed the basis for fees in response to market conditions, particularly changes in implied volatilities. These changes have reduced the risk exposure in new variable annuity business and position SunAmerica for growth in sales in a very competitive market.

The estimated gross profits used to amortize Deferred Policy Acquisition Costs (DAC), Value of Business Acquired (VOBA) and SIA are subject to differing market returns and interest rate environments in any single period. Estimated gross profits is comprised of net interest income, net realized investment gains and losses, fees, surrender charges, expenses, and mortality and morbidity gains and losses. SunAmerica uses a reversion to mean methodology to account for fluctuations in separate account returns. Continued favorable separate account returns could trigger a favorable unlocking, where the reversion to mean assumption is reset. If current favorable equity market returns continue in 2011, such an unlocking could occur during 2011, which could result in higher amortization requirements in future periods.

SunAmerica generally obtains letters of credit in order to receive statutory recognition of its intercompany reinsurance transactions, particularly with respect to redundant statutory reserve requirements on term insurance and universal life with secondary guarantees (XXX and AXXX reserves). For this purpose, SunAmerica had a $2.5 billion syndicated letter of credit facility outstanding at December 31, 2010, all of which relate to intercompany life reinsurance transactions. SunAmerica has also obtained approximately $2.3 billion of letters of credit on a bilateral basis, all of which relate to intercompany life reinsurance transactions. All of these approximately $4.8 billion in letters of credit are due to mature on December 31, 2015. The fees paid to maintain any bilateral letters of credit will likely be based on AIG's long-term debt ratings.

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Under the terms of approximately $2.2 billion of the bilateral letters of credit, however, the issuing bank has the right to base its fees on AIG's credit default swap pricing, and elected to do so in September 2010. This change increased the fees for maintaining these letters of credit by approximately $48 million annually.

The life insurance industry continues to be challenged by XXX reserve funding requirements. While capital markets' solutions for financing these reserves are becoming less restrictive than in prior years, the capacity for and cost of available solutions, such as letters of credit and securitization, have not returned to pre-2008 levels.

Financial Services

International Lease Finance Corporation

In 2011, ILFC will focus on the following to improve its credit rating in 2011:

- transition its focus from liquidity to planning for long-term capital requirements as it further strengthens its already diversified financing profile and re-establishes back-up sources of liquidity;
- implement a long-term aircraft portfolio strategy; as it acquires new aircraft to support comprehensive fleet solutions for airlines, ILFC will seek to reduce its portfolio to bolster the core at the same time as it maximizes value from other aircraft; and
- focus on its customers through increased interaction, including the opening of regional offices, to enhance its regional presence.

In 2011, ILFC sees a positive outlook for aircraft leasing. ILFC anticipates the following:

- a continuing recovery in airline revenues, although such recovery and the profitability of such recovery will remain vulnerable to increasing fuel costs and other political and economic disruptions;
- fleet flexibility and lower cash requirements offered by operating leases will continue to be valuable to the airline industry; and
- stabilization and improvement in lease rates and market values of aircraft.

Capital Markets Wind-Down

During 2010, AIG continued to make progress winding down the Capital Markets derivatives portfolio. At December 31, 2010, the net notional amount of the portfolio was $352.8 billion (including $11.5 billion of intercompany derivatives), of which $59.9 billion were super senior credit default swap contracts. AIG expects the active unwind of the Capital Markets derivatives portfolio to be completed by the end of the second quarter of 2011, and the remaining Capital Markets derivatives portfolio will consist predominantly of transactions that AIG believes will be of low complexity, low risk, supportive of AIG's risk management objectives or not economically appropriate to unwind based on a cost versus benefit analysis.

Other Operations

Parent & Other

In connection with the January 2011 repayment of the FRBNY Credit Facility from proceeds of the AIA IPO and ALICO sale, AIG expects to record a net $3.3 billion pre-tax charge from extinguishment of debt in the first quarter of 2011, primarily representing the accelerated amortization of the prepaid commitment fee asset. As a consequence of the significant reduction in outstanding debt realized in connection with the Recapitalization, AIG's interest expense is expected to decline significantly in 2011 as a result of the repayment.

AIG also expects restructuring expenses attributable to disposition activity will decline as AIG completes the remaining dispositions in 2011.

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Mortgage Guaranty

The improvement in UGC's 2010 results is primarily the result of declining levels of newly reported delinquencies in the first-lien, second-lien and international products, higher cure rates on existing first-lien and international delinquent loans, the effect of stop-loss limits on certain second-lien and international policies, increased rescission activity on domestic first-lien claims, the commutation of several blocks of loan risks, and increased efforts to modify payment plans for currently delinquent domestic first-lien loans. If these trends persist, UGC's financial results may continue to show improvement in future quarters. However, there remains considerable uncertainty about the longer term outlook for the housing market, U.S. unemployment rates, the impact of future foreclosures on domestic home prices, loan modification programs, the elimination of tax credits for first-time homebuyers, moratoriums on foreclosures by certain lenders and mortgage insurance rescission rates and the effects, if any, these factors may have on UGC's financial results.

Direct Investment Business

During 2010, AIG made progress in the wind-down of the Global Real Estate business by reducing debt, guarantees and other funding requirements while monetizing assets within the portfolio which included the sale of discrete assets, joint venture restructuring and the sale of certain business platforms both domestically and internationally. During 2011, AIG expects to continue the wind-down of the Global Real Estate platform. AIG carefully evaluates various alternative exit strategies for each property and chooses the strategy it deems most appropriate. Although orderly, the wind-down has produced and will continue to produce income statement volatility resulting from impairments on real estate assets and subsequent gains on the defeasance of non-recourse debt. AIG continues to monitor funding requirements of the business.

During the fourth quarter of 2010, AIG either sold or internally securitized Direct Investment assets. These actions have produced sufficient cash to fund the expected 2011 maturities of the Direct Investment portfolio. During 2011, management expects to pursue measures to maximize cash flows from these invested assets while continuing its efforts to align the timing of the combined cash flows between the MIP and certain non-derivative assets and liabilities of AIGFP.

The remainder of MD&A is organized as follows:

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

Capital Resources and Liquidity

Overview

As a result of the recent closing of the Recapitalization, AIG's liquidity management practices have changed considerably. Since September 2008, the FRBNY Credit Facility had been utilized as a primary source of liquidity. In addition, since 2009, the commitment provided by the Department of the Treasury (the Department of the Treasury Commitment (Series F)), relating to AIG's Series F Fixed Rate Non-Cumulative Perpetual Preferred Stock, par value $5.00 per share (the Series F Preferred Stock), had been used as a source of funding, primarily to support the capital needs of AIG's insurance company subsidiaries. However, at the closing of the Recapitalization, as described more fully above and in Note 1 to the Consolidated Financial Statements, AIG fully repaid and terminated the FRBNY Credit Facility, and the Department of the Treasury Commitment (Series F) was exchanged for, among other consideration, a commitment (the Series G Drawdown Right) by the Department of the Treasury to fund up to $2 billion in liquidation preference of AIG's Series G Cumulative Mandatory Convertible Preferred Stock, par value $5.00 per share (the Series G Preferred Stock). AIG also completed the following transactions to enhance its liquidity and capital position:

- In the fourth quarter of 2010, AIG issued an aggregate of $2 billion in senior unsecured notes, comprised of $500 million in three-year notes and $1.5 billion in ten-year notes. In addition, AIG established a $500 million contingent liquidity facility.

- In December 2010, AIG entered into an aggregate of $3 billion in unsecured and committed bank credit facilities, split evenly between a 364-day and a three-year credit facility. These facilities became available upon the closing of the Recapitalization and are intended to support general corporate purposes.

- In December 2010, Chartis Inc. entered into a one-year $1.3 billion letter of credit facility, which provides for the issuance of letters of credit in favor of certain of Chartis' insurance companies.

- In January 2011, ILFC entered into an unsecured three-year $2 billion revolving credit facility. ILFC may borrow under this facility for general corporate purposes.

For further discussion of the terms and conditions relating to these above-referenced credit facilities, see Credit Facilities below.

As a result of various actions taken in the fourth quarter of 2010 and in 2011 to date, AIG Parent has generated substantial cash and short-term investment balances, and has established significant sources of contingent liquidity.

Liquidity Adequacy Management

In 2010, AIG implemented a stress testing and liquidity framework to systematically assess AIG's aggregate exposure to its most significant risks. This framework is built on AIG's existing Enterprise Risk Management (ERM) stress testing methodology for both insurance and non-insurance operations. The scenarios are performed with a two-year time horizon and capital adequacy requirements consider both financial and insurance risks.

AIG's insurance operations must comply with numerous constraints on their minimum capital positions. These constraints are guiding requirements for capital adequacy for individual businesses, based on capital assessments under rating agency, regulatory and business requirements. Using ERM's stress testing methodology, the capital impact of potential stresses is evaluated relative to the binding capital constraint of each business operation in order to determine AIG Parent's liquidity needs to support the insurance operations and maintain their target capitalization levels. Added to this amount is the contingent liquidity required under stressed scenarios for non-insurance operations, including the AIGFP derivatives portfolio, the Direct Investment business and ILFC.

AIG's consolidated risk target is to maintain a minimum liquidity buffer such that AIG Parent's liquidity needs under the ERM stress scenarios do not exceed 80 percent of AIG Parent's overall liquidity sources over the specified two-year horizon. If the 80 percent minimum threshold is projected to be breached over this defined time horizon, AIG will take appropriate actions to further increase liquidity sources or reduce liquidity needs to maintain the target threshold, although no assurance can be given that this would be possible under then-prevailing market conditions.

AIG expects to enter into additional capital maintenance agreements with its U.S. insurance companies to manage the flow of capital and funds between AIG Parent and the insurance companies.

As a result of these ERM stress tests, AIG believes that it has sufficient liquidity at the AIG Parent level to satisfy future liquidity requirements and meet its obligations, including reasonably foreseeable contingencies or events.

See further discussion regarding AIG Parent and subsidiary liquidity considerations in Liquidity of Parent and Subsidiaries below.

Analysis of sources and uses of cash

The following table presents selected data from AIG's Consolidated Statement of Cash Flows:

Years Ended December 31, ***(in millions)***	**2010**	**2009**	**2008**
Summary:			
Net cash provided by (used in) operating activities	**$ 16,910**	$ 18,584	$ (122)
Net cash provided by (used in) investing activities	**(10,225)**	5,778	47,176
Net cash used in financing activities	**(9,261)**	(28,997)	(40,734)
Effect of exchange rate changes on cash	**39**	533	38
Change in cash	**(2,537)**	(4,102)	6,358
Cash at beginning of year	**4,400**	8,642	2,284
Reclassification of assets held for sale	**(305)**	(140)	-
Cash at end of year	**$ 1,558**	$ 4,400	$ 8,642

Net cash provided by operating activities was positive for both 2010 and 2009 compared to negative in 2008, principally due to positive cash flows from AIG's life insurance subsidiaries.

Insurance companies generally receive most premiums in advance of the payment of claims or policy benefits, but the ability of Chartis to generate positive cash flow is affected by operating expenses, the frequency and severity of losses under its insurance policies and policy retention rates. Cash provided by Chartis operations was $1.9 billion for 2010 compared to $2.8 billion in 2009 as a reduction in claims paid was more than offset by declines in premiums collected, arising primarily from a decrease in domestic production. Catastrophic events and significant casualty losses, the timing and effect of which are inherently unpredictable, reduce operating cash flow for Chartis operations. Cash provided by AIG's life insurance subsidiaries, including entities presented as discontinued operations, was $15.5 billion for 2010 compared to $9.1 billion in 2009 as growth in international markets was partially offset by a decrease in cash flows from domestic operations. Cash flows provided from Financial Services including entities presented as discontinued operations were $1.4 billion and $5.4 billion for 2010 and 2009, respectively. The decrease can be attributed in part to the continued wind-down of AIGFP's businesses and portfolio.

Cash provided by Chartis was $2.8 billion for 2009 compared to $4.8 billion in 2008 as a reduction in claims paid was more than offset by reduced premiums collected. Cash provided by life insurance operations, including entities presented as discontinued operations, was $9.1 billion for 2009 compared to $22 billion in 2008. Reduced cash flows were primarily driven by the continuing impact of the negative events during the second half of 2008. Cash provided from Financial Services, including entities presented as discontinued operations, was $5.4 billion for 2009 compared to $28.9 billion operating cash outflows in 2008, primarily related to collateral posting requirements.

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The Capital Markets wind-down and other segment developments affecting pre-tax income (loss) described above are discussed further in Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity of Parent and Subsidiaries Financial Services Capital Markets Wind-down.

Accrued compounding interest and fees (reflected as non-cash expenses) were paid in kind in 2010 and 2009 under the provisions of the FRBNY Credit Facility and, accordingly, did not reduce operating cash flow in any period. Debt under the FRBNY Credit Facility includes total accrued compounding interest and fees of $6.4 billion at December 31, 2010. This amount was fully repaid in cash on January 14, 2011 as part of the Recapitalization.

Net cash used in investing activities in 2010 primarily resulted from net purchases of fixed maturity securities, resulting from AIG's investment of cash generated from operating activities, and the redeployment of liquidity that had been accumulated by the insurance companies in 2008 and 2009. In these years, Net cash provided by investing activities resulted from the net proceeds from the sale and maturity of investments.

Net cash used in financing activities was significantly lower in 2010 than in 2009, primarily as a result of declines in policyholder contract withdrawals, reflecting improved conditions for the life insurance and retirement services businesses was partially offset by the issuance of long-term debt by ILFC, which is discussed in Liquidity of Parent and Subsidiaries Financial Services ILFC. Net cash used in financing activities was significantly lower in 2009 than in 2008, also primarily as a result of declines in policyholder contract withdrawals, reduction of payments and the FRBNY Credit Facility and a reduction in repayments of other borrowings. See Contractual Obligations herein for additional information.

Liquidity of Parent and Subsidiaries

AIG Parent

Sources of Liquidity

As a result of the Closing of the Recapitalization, AIG has established and maintains substantial sources of actual and contingent liquidity. **The following table presents AIG Parent's sources of liquidity in addition to liquidity that is expected to result from cash flows from operations:**

(In millions)	As of December 31, 2010	As of February 16, 2011
Cash[a]	**$ 49**	$ -
Short-term investments[a]	**5,602**	8,953
Available capacity under Syndicated Credit Facility[b]	**-**	3,000
Available capacity under Contingent Liquidity Facility	**500**	500
Available capacity under the Department of the Treasury Commitment (Series G)[b]	**-**	2,000
Available borrowing under the FRBNY Credit Facility[c]	**9,890**	-
Available capacity under the Department of the Treasury Commitment (Series F)[c]	**22,292**	-
Total AIG Parent liquidity sources[d]	**$ 38,333**	$ 14,453[e]

(a) *Includes total Cash and Short-term investments for AIG Parent. See Note 25 to the Consolidated Financial Statements.*

(b) *The Syndicated Credit Facility and the Series G Drawdown Right became effective January 14, 2011, the closing date of the Recapitalization.*

(c)

The FRBNY Credit Facility was fully repaid and terminated, and the Department of Treasury Commitment (Series F) was drawn down on the closing of the Recapitalization.

(d) *Excludes Cash and Short-term Investments held by AIGFP (excluding Banque AIG S.A.) which are considered to be unrestricted and available for use by AIG Parent; these balances totaled $421 million at December 31, 2010 and $494 million at February 16, 2011.*

(e) *Does not give effect to reduction for a $3.7 billion capital contribution made by AIG Parent to Chartis after February 16, 2011.*

FRBNY Credit Facility: At December 31, 2010, a total of $21.0 billion was outstanding under the FRBNY Credit Facility, a net decrease of $2.5 billion from December 31, 2009. The amount outstanding at December 31, 2010 included $6.4 billion of accrued compounding interest and fees. On January 14, 2011, AIG used cash proceeds from the AIA initial public offering and the sale of ALICO to fully repay and terminate the FRBNY

Credit Facility in connection with the closing of the Recapitalization. See Note 1 to the Consolidated Financial Statements for additional information.

Department of the Treasury Commitment: At December 31, 2010, a total of $7.5 billion was outstanding under the Department of the Treasury Commitment (Series F), an increase of $2.2 billion from December 31, 2009. On January 14, 2011 AIG drew down approximately $20.3 billion under this (Series F) Commitment to purchase a portion of the SPV Preferred Interests that were exchanged with the Department of the Treasury. In connection with the closing of the Recapitalization, $2 billion under the (Series F) Commitment was exchanged for the Series G Drawdown Right, and the Series G Drawdown Right became effective on that date. See Note 1 to the Consolidated Financial Statements for additional information.

Syndicated and Contingent Facilities: Bank credit facilities totaling $3 billion became available upon the closing of the Recapitalization on January 14, 2011 and AIG had previously established a $500 million contingent liquidity facility in December 2010. AIG's ability to borrow under the facilities is not contingent on its credit ratings. For further discussion of the terms and conditions relating to the bank credit facilities, see Credit Facilities below. For additional information on the contingent liquidity facility see Debt below.

AIG Parent's primary sources of cash flow are dividends, distributions, and other payments from subsidiaries. In 2010, AIG Parent collected $1.9 billion in dividends and other payments from subsidiaries (primarily from insurance company subsidiaries), which included $1.4 billion in dividends from Chartis U.S. In addition, AIG has been able to generate significant liquidity through capital markets activities. In November 2010, AIG issued an aggregate of $2 billion in senior unsecured notes, comprised of $500 million in three-year notes and $1.5 billion in ten-year notes. The proceeds from these issuances have been retained by AIG Parent for liquidity. Additional details are set forth in Debt below.

Uses of Liquidity

AIG's primary uses of cash flow are for debt service, operating expenses and subsidiary capital needs. In 2010, AIG Parent retired $1.4 billion of debt and made interest payments totaling $1.8 billion, excluding MIP and Series AIGFP debt. AIG Parent made $2.6 billion in net capital contributions to subsidiaries in 2010, of which the majority was contributed to AIG Capital Corporation, enabling AIG Capital Corporation to redeem its preferred securities held by a Chartis U.S. subsidiary. In connection with the sale of a majority interest in AGF in November 2010, AIG Parent paid AGF $750 million under a demand note in addition to making net repayments of $800 million prior to the fourth quarter of 2010. At December 31, 2010, AIG Parent owed AGF $469 million under a promissory note related to a tax sharing agreement between AIG Parent and AGF.

After February 16, 2011, AIG Parent provided capital support to Chartis by making a $3.7 billion capital contribution. This transaction was funded from the retention of $2 billion of net cash proceeds from the sale of AIG Star and AIG Edison (which the Department of the Treasury provided a waiver to use for this purpose instead of using the amount to repay SPV Preferred Interests) and available cash at AIG Parent.

AIG believes that it has sufficient liquidity at the AIG Parent level to satisfy future liquidity requirements and meet its obligations, including reasonably foreseeable contingencies or events. However, no assurance can be given that AIG's cash needs will not exceed projected amounts. Additional collateral calls, deterioration in investment portfolios or reserve strengthening affecting statutory surplus, higher surrenders of annuities and other policies, further downgrades in AIG's credit ratings, catastrophic losses or a further deterioration in the super senior credit default swap portfolio may result in significant additional cash needs, loss of some sources of liquidity or both. Regulatory and other legal restrictions could limit AIG's ability to transfer funds freely, either to or from its subsidiaries.

Several Chartis U.S. insurance subsidiaries have deferred tax assets on a separate company basis, including those resulting from net operating losses incurred. Chartis intends to rely on prudent and feasible effective tax planning actions and/or strategies to preserve admissibility of such deferred tax assets for insurance regulatory reporting purposes. In the event that Chartis cannot execute such actions, if required, and the related deferred tax assets become non-admitted for insurance regulatory reporting purposes, such insurance companies would require additional capital contributions of up to $2.3 billion from AIG, based on December 31, 2010 balances. The Chartis

U.S. deferred tax assets have a full valuation allowance at the AIG consolidated level as described in Note 22 to the Consolidated Financial Statements.

Chartis

AIG currently expects that its Chartis subsidiaries will be able to continue to satisfy future liquidity requirements and meet their obligations, including reasonably foreseeable contingencies or events, through cash from operations and, to the extent necessary, asset dispositions. Chartis subsidiaries maintain substantial liquidity in the form of cash and short-term investments, totaling $12.4 billion as of December 31, 2010. Further, Chartis businesses maintain significant levels of investment-grade fixed income securities, including substantial holdings in government and corporate bonds, which Chartis could seek to monetize in the event operating cash flows are insufficient. Generally, these assets are not transferable across various legal entities; however, management believes there are generally sufficient resources within those legal entities such that they can meet their individual needs.

One or more large catastrophes, however, may require AIG to provide additional support to the affected Chartis operations. In addition, further downgrades in AIG's credit ratings could put pressure on the insurer financial strength ratings of its subsidiaries which could result in non-renewals or cancellations by policyholders and adversely affect the relevant subsidiary's ability to meet its own obligations and require AIG to provide capital or liquidity support to the subsidiary. Increases in market interest rates may adversely affect the financial strength ratings of Chartis subsidiaries as rating agency capital models may reduce the amount of available capital relative to required capital. Other potential events that could cause a liquidity strain include economic collapse of a nation or region significant to Chartis operations, nationalization, catastrophic terrorist acts, pandemics or other economic or political upheaval.

Given the size and liquidity profile of the Chartis investment portfolios, AIG believes that variations from its projected claim experience do not constitute a significant liquidity risk. For example, the recent $4.2 billion fourth-quarter net reserve charge did not materially impact the liquidity of Chartis in light of the long-tail nature of the classes of business strengthened. In addition, Chartis' liquidity position was further strengthened by the contribution of $3.7 billion in cash to the capital of Chartis. The contribution was immediately followed by a transfer of UGC shares by Chartis via a return of capital. The capital contribution was partially funded from the retention of $2 billion of net cash proceeds from the sale of AIG Star and AIG Edison. AIG's asset/liability management process takes into account the expected maturity of investments and the specific nature and risk profile of liabilities. Historically, there has been no significant variation between the expected maturities of the Chartis investments and the payment of claims. See Management's Discussion and Analysis of Financial Condition and Results of Operations Investments for further information.

In December 2010, Chartis Inc. entered into a one-year $1.3 billion letter of credit facility, which provides for the issuance of letters of credit in favor of certain of its general insurance companies, to permit those companies' statutory recognition of reinsurance recoverables from unauthorized reinsurers.

SunAmerica

Management considers the sources of liquidity for SunAmerica subsidiaries adequate to satisfy future liquidity requirements and meet foreseeable liquidity needs, including reasonably foreseeable contingencies or events. These subsidiaries generally have been lengthening their maturity profile by purchasing investment grade fixed income securities, in order to reduce the high levels of cash, cash equivalents and other short-term instruments that had been maintained during 2009 and 2010. The SunAmerica subsidiaries continue to maintain substantial liquidity in the form of cash and short-term investments, totaling $19.4 billion as of December 31, 2010. In addition, the SunAmerica businesses maintain significant levels of investment-grade fixed income securities, including substantial holdings in government and corporate bonds, which SunAmerica could seek to monetize in the event operating cash flows are insufficient. Generally, these assets are not transferable across various legal entities; however, management believes there are generally sufficient resources within those legal entities such that they can meet their individual needs.

The most significant potential liquidity needs of SunAmerica companies are the funding of surrenders, withdrawals and the liquidity needs to meet the GIC maturities. A significant increase in policy surrenders and withdrawals, which could be triggered by a variety of factors, including AIG-specific concerns, could result in a substantial liquidity strain on these companies. Other potential events that could cause a liquidity strain include economic collapse of a state or region significant to SunAmerica operations, nationalization, catastrophic terrorist acts or pandemics or other economic or political upheaval. Given the size and liquidity profile of SunAmerica's investment portfolios, AIG believes that any deviations from their projected claim experience would not constitute a significant liquidity risk.

The liquidity needs of the GIC maturities are expected to be substantially met by the underlying asset portfolios.

AIG believes that SunAmerica companies currently have adequate capital to support their business plans. However, to the extent that these subsidiaries experience significant future losses or declines in their investment portfolios, AIG Parent may be required to contribute capital.

Financial Services

AIG's major Financial Services operations consist of ILFC and the remaining portfolios of AIGFP, which are in wind-down. During 2010, ILFC made significant progress in addressing its foreseeable liquidity needs, as further described below. In addition, AIG has sold a substantial portion of its consumer finance operations, which were previously reported as part of Financial Services.

International Lease Finance Corporation

ILFC's sources of liquidity include collections of lease payments, borrowing in the public markets, and proceeds from asset sales. Uses of liquidity for ILFC primarily consist of aircraft purchases and debt repayments. In 2010, ILFC took a number of actions to increase its liquidity position and lengthen its maturities as described under Debt below.

See Debt Debt Maturities ILFC and Note 15 to the Consolidated Financial Statements for further details on ILFC's outstanding debt.

Direct Investment Business and Capital Markets

Prior to September 2008, AIGFP had historically funded its operations through the issuance of notes and bonds, guaranteed investment agreement (GIA) borrowings, other structured financing transactions and repurchase agreements. AIGFP has relied upon AIG Parent to meet most of its collateral and other liquidity needs.

The following table presents a rollforward of the amount of collateral posted by the Direct Investment business and Capital Markets operations:

(in millions)	Collateral Posted as of December 31, 2009	Additional Postings, Netted by Counterparty	Collateral Returned by Counterparties	Collateral Posted as of December 31, 2010
Collateralized GIAs (Direct Investment business)	$ 6,129	$ 708	$ 1,175	$ 5,662
Super senior credit default swap (CDS) portfolio	4,590	393	1,197	3,786
All other derivatives	5,217	2,196	6,078	1,335
Total	$ 15,936	$ 3,297	$ 8,450	$ 10,783

Capital Markets Wind-down

During 2010, AIG's Asset Management Group undertook the management responsibilities for certain non-derivative assets and liabilities of the Capital Markets businesses of the Financial Services segment. These assets and liabilities are being managed on a spread basis, in concert

with the MIP. Accordingly, gains and losses

related to these assets and liabilities, primarily consisting of credit valuation adjustment gains and losses, are reported in AIG's Other operations category as part of Asset Management Direct Investment business.

During 2010, AIGFP continued to unwind its portfolios, significantly reducing the net notional amount and number of outstanding trade positions as shown in the following table:

(dollars in billions)	December 31, 2010	December 31, 2009	December 31, 2008	Percentage Decrease 2010 vs. 2009	Percentage Decrease 2009 vs. 2008
Net notional amount[(a)]	**$ 353**	$ 941	$ 1,800	(62)%	(48)%
Super senior CDS contracts (included in net notional amount above)	**$ 60**	$ 184	$ 302	(67)	(39)
Outstanding trade positions[(b)]	**3,900**	16,100	35,200	(76)	(54)

(a) *Includes $11.5 billion, $40.7 billion and $44.7 billion of intercompany derivatives in 2010, 2009 and 2008, respectively. Net notional amount in 2008 was adjusted by approximately $200.0 billion in accordance with the amended accounting standard on derivative instruments and hedging activities.*

(b) *Excludes approximately 4,800 non-derivative trade positions that were transferred to Direct Investment business in 2010.*

In connection with these activities, AIGFP disaggregated its portfolio of existing transactions into separate "books" and developed a plan for addressing each book, including assessing each book's risks, risk mitigation options, monitoring metrics and various potential outcomes. The plans are subject to change as efforts progress and as conditions in the financial markets evolve, and they contemplate, depending on the book in question, alternative strategies, including sales, assignments or other transfers of positions, terminations of positions and/or run-offs of positions in accordance with existing terms. Execution of these plans is overseen by a transaction approval process involving senior members of AIGFP's and AIG's respective management groups as specific actions entail greater liquidity and financial consequences. Successful execution of these plans is subject, to varying degrees depending on the transactions of a given book, to market conditions and, in many circumstances, counterparty negotiation and agreement.

As a consequence of its wind-down strategy, AIGFP is entering into new derivative transactions only to hedge its current portfolio, reduce risk and hedge the currency, interest rate and other market risks associated with its affiliated businesses. AIGFP has already reduced the size of certain portions of its portfolio, including through a substantial reduction in credit derivative transactions in respect of multi-sector collateralized debt obligations (CDOs) in connection with ML III, the ongoing termination of transactions in its regulatory capital portfolio, a sale of its commodity index business, termination and sale of its activities as a foreign exchange prime broker and a sale and other disposition of its energy/infrastructure investment portfolio. AIGFP has also novated certain trades to AIG Markets. AIG expects the active unwind of the Capital Markets derivatives portfolio to be completed by the end of the second quarter of 2011, and the remaining Capital Markets derivatives portfolio will consist predominantly of transactions AIG believes will be of low complexity, low risk, supportive of AIG's risk management objectives or not economically appropriate to unwind based on a cost versus benefit analysis.

The cost and liquidity needs of executing the wind-down will depend on many factors, many of which are not within AIG's control, including market conditions, AIGFP's access to markets via market counterparties, the availability of liquidity and the potential implications of further rating downgrades.

Debt

Debt Maturities

The following table summarizes the maturing debt at December 31, 2010 of AIG and its subsidiaries for the next four quarters:

(in millions)	First Quarter 2011	Second Quarter 2011	Third Quarter 2011	Fourth Quarter 2011	Total
ILFC	$ 1,489	$ 1,262	$ 2,148	$ 336	$ 5,235
AIG borrowings supported by assets	248	1,637	1,284	1,151	4,320
AIG general borrowings	146	-	-	618	764
Other	1	1	1	1	4
Total	$ 1,884	$ 2,900	$ 3,433	$ 2,106	$ 10,323

AIG's plans for meeting these maturing obligations are as follows:

- ILFC's sources of liquidity available to meet these needs include existing cash, future cash flows from operations, debt issuances and aircraft sales (subject to market and other conditions) (see Liquidity of Parent and Subsidiaries Financial Services ILFC). During 2010, ILFC significantly increased its liquidity position through a combination of new secured and unsecured debt issuances of approximately $9.8 billion and an extension of the maturity date of $2.16 billion of its $2.5 billion revolving credit facility from October 2011 to October 2012. In December 2010, ILFC paid down $800 million of this revolving credit facility. The amended facility prohibits ILFC from re-borrowing amounts repaid under this facility for any reason; therefore the size of the outstanding facility is $1.7 billion. Also, in January 2011 ILFC entered into an unsecured three-year $2.0 billion revolving credit facility. During 2010, ILFC agreed to sell 66 aircraft to third parties, 57 of which were sold. These sales generated approximately $2.1 billion in gross proceeds during 2010.

- AIG borrowings supported by assets consist of debt under the MIP as well as AIGFP debt being managed in the Direct Investment business. Approximately $3.7 billion of debt maturities in the Direct Investment business through December 31, 2011 are supported by maturities of investments and short term cash investments. Mismatches in the timing of cash inflows on the assets and outflows with respect to the liabilities may require assets to be sold to satisfy maturing liabilities. Depending on market conditions and the ability to sell assets at that time, proceeds from sales may not be sufficient to satisfy the full amount due on maturing liabilities. Any shortfalls would need to be funded by AIG Parent.

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American International Group, Inc., and Subsidiaries

The following table provides the rollforward of AIG's total debt outstanding:

Year Ended December 31, 2010 *(in millions)*	**Balance at December 31, 2009**	**Issuances**	**Maturities and Repayments**	**Effect of Foreign Exchange**	**Other Non-Cash Changes**	**Activity of discontinued operations**[a]	**Reclassified to Liabilities of businesses held for sale**	**Dispositions**[b]	**Balance at December 31, 2010**
Debt issued or guaranteed by AIG:									
General borrowings:									
FRBNY Credit Facility[c]	$ 23,435	$ 19,900	$ (23,178)	$ -	$ 828[d]	$ -	$ -	$ -	**$ 20,985**
Notes and bonds payable	10,419	1,996	(1,351)	(54)	501	-	-	-	**11,511**
Junior subordinated debt	12,001	-	-	(262)	1	-	-	-	**11,740**
Junior subordinated debt attributable to equity units	5,880	-	-	-	(3,711)[e]	-	-	-	**2,169**
Loans and mortgages payable	438	146	-	-	2	12	(380)	-	**218**
AIG Funding FRBNY commercial paper funding facility	1,997	-	(2,000)	-	3	-	-	-	**-**
SunAmerica Financial Group, Inc. (SAFG, Inc.) notes and bonds payable	798	-	(500)	-	-	-	-	-	**298**
Liabilities connected to trust preferred stock	1,339	-	-	-	-	-	-	-	**1,339**
Total general borrowings	56,307	22,042	(27,029)	(316)	(2,376)	12	(380)	-	**48,260**
Borrowings supported by assets:									
MIP notes payable	13,371	-	(2,267)	392	(178)	-	-	-	**11,318**
Series AIGFP matched notes and bonds payable	3,913	-	(63)	-	131	-	-	-	**3,981**
FRBNY commercial paper funding facility, at fair value	2,742	2,272	(6,127)	-	1,113[f]	-	-	-	**-**
GIAs, at fair value	8,257	680	(1,666)	-	941[f]	-	-	-	**8,212**
Notes and bonds payable, at fair value	3,916	108	(925)	-	154[f]	-	-	-	**3,253**
Loans and mortgages payable at fair value	1,022	21	(299)	-	(66)[f]	-	-	-	**678**
Total borrowings supported by assets	33,221	3,081	(11,347)	392	2,095	-	-	-	**27,442**
Total debt issued or guaranteed by AIG	89,528	25,123	(38,376)	76	(281)	12	(380)	-	**75,702**
Debt not guaranteed by AIG:									
ILFC:									
Notes and bonds payable, ECA facilities, bank financings and other secured financings[g]	25,174	9,704	(7,990)	(200)	12	-	-	-	**26,700**
Junior subordinated debt	999	-	-	-	-	-	-	-	**999**
Total ILFC debt	26,173	9,704	(7,990)	(200)	12	-	-	-	**27,699**
AGF:									
Notes and bonds payable	19,770	-	-	-	-	(3,495)	-	(16,275)	**-**
Junior subordinated debt	349	-	-	-	-	-	-	(349)	**-**
Total AGF debt	20,119	-	-	-	-	(3,495)	-	(16,624)	**-**

AIG Consumer Finance Group, Inc. loans and mortgages payable	216	100	(115)	(7)	(194)	-	-	-	**-**
Other subsidiaries	295	43	(58)	2	318*(h)*	4	(145)	(13)	**446**
Total debt of consolidated investments*(i)*	5,141	248	(1,507)	(1)	(681)	(52)	-	(534)	**2,614**
Total debt not guaranteed by AIG	51,944	10,095	(9,670)	(206)	(545)	(3,543)	(145)	(17,171)	**30,759**
Total debt:									
Total long-term debt	136,733	32,946	(39,919)	(130)	(1,942)	(3,531)	(525)	(17,171)	**106,461**
FRBNY commercial paper funding facility	4,739	2,272	(8,127)	-	1,116*(j)*	-	-	-	**-**
Total debt	$ 141,472	$ 35,218	$ (48,046)	$ (130)	$ (826)	$ (3,531)	$ (525)	$ (17,171)	**$ 106,461**

(a) *Primarily represents activity related to ALICO and AGF prior to close of sale.*

(b) *Reflects the deconsolidation of AIA and sale of AGF and ALICO in 2010.*

(c) *The FRBNY Credit Facility was fully repaid and terminated in January 2011 in connection with the closing of the Recapitalization.*

(d) *Represents accrued interest and fees.*

(e) *Represents exchange of Equity Units (and the underlying subordinated debt) for AIG Common Stock and cash.*

(f) *Primarily represents adjustments to the fair value of Direct Investment business debt.*

(g) *Includes $114 million of secured financings that are non-recourse to ILFC.*

(h) *Includes $164 million of debt assumed on the acquisition of Fuji.*

(i) *At December 31, 2010, includes debt of consolidated investments held through AIG Global Real Estate Investment, AIG Credit and SunAmerica of $2.2 billion, $312 million and $108 million, respectively.*

(j) *Reflects the consolidation of Nightingale during the first quarter of 2010.*

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AIG Parent

AIG issues debt securities from time to time to meet its financing needs and those of certain of its subsidiaries, including general borrowing to support AIG's capital structure and corporate needs, borrowing supported by assets intended to provide spread-based income and borrowing specific to certain AIG subsidiaries to support the operations of those subsidiaries. Liquidity sources of AIG and its respective subsidiaries are utilized to fund repayment of these obligations, including any additional funding requirements where cash flows from assets supporting borrowing obligations are not sufficient.

In the fourth quarter of 2010, AIG raised approximately $2.5 billion in senior debt and contingent liquidity. AIG issued an aggregate of $2 billion in senior unsecured notes, comprised of $500 million in three-year notes and $1.5 billion in ten-year notes. In addition, AIG established a $500 million contingent liquidity facility in the name of Stone Street Trust in December 2010. Under this facility, AIG has the unconditional right, prior to December 15, 2015, to issue up to $500 million in senior debt to the Stone Street Trust, at its discretion, based on a put option agreement between AIG and the Stone Street Trust. The senior debt, if issued, will mature on December 15, 2015.

As of December 31, 2010, notes and bonds, including AIG Parent, MIP and Series AIGFP matched notes and bonds payable, aggregating $26.5 billion were outstanding with maturity dates ranging from 2011 to 2052. To the extent considered appropriate, AIG may enter into swap transactions to manage its effective borrowing rates with respect to these notes and bonds.

In November 2010, AIG exchanged 49,474,600 of its Equity Units for 4,881,667 shares of AIG Common Stock plus $162 million in cash. Each Equity Unit was exchanged for 0.09867 shares of AIG Common Stock plus $3.2702 in cash. The stock and cash received by the Equity Unit holders was the result of netting payments from two separate transactions, a repurchase of the subordinated debentures and a cancellation of the stock purchase contracts.

Following the completion of the exchange offer, a total of 28,925,400 Equity Units remained outstanding. In addition, the remaining debentures continue to be subject to remarketing. In January 2011, AIG remarketed the first of three series of the remaining debentures included in the Equity Units. AIG purchased and retired all of the Series B-1 Debentures representing $723 million aggregate principal amount of the Series B-1 Debentures and as a result, no Series B-1 Debentures remain outstanding. The remarketing of the remaining debentures included in the Equity Units will occur later in 2011.

SunAmerica Financial Group, Inc. (SAFG, Inc.; formerly AIG Life Holdings (US), Inc.)

In connection with its acquisition of SAFG, Inc. in 2001, AIG entered into arrangements with SAFG, Inc. with respect to outstanding SAFG, Inc. capital securities. In 1996, SAFG, Inc. issued capital securities through a trust to institutional investors and funded the trust with SAFG, Inc. junior subordinated debentures issued to the trust. SAFG, Inc. guaranteed payments to the holders of capital securities only to the extent (i) the trust received payments on the debentures and (ii) these payments were available for the trust to pay to holders of capital securities. In 2001, AIG guaranteed the same payments to the holders of capital securities. Like the SAFG, Inc. guarantee, the AIG guarantee applies only to any payments actually made to the trust in respect of the debentures. If no payments are made on the debentures, AIG is not required to make any payments to the trust. AIG also guaranteed the debentures pursuant to a guarantee that is expressly subordinated to certain SAFG, Inc. senior debt securities. Under AIG's guarantee, AIG is not required to make any payments in respect of the debentures if such payment would be prohibited by the subordination provisions of the debentures. As a result, AIG will never be required to make a payment under its guarantee of the debentures for so long as SAFG, Inc. is prohibited from making a payment on the debentures.

ILFC

During 2010, ILFC borrowed $327 million to refinance five aircraft and finance five new aircraft under its Export Credit Agency (ECA) Facility described below, borrowed $5.2 billion through secured financing

arrangements, issued $2.75 billion aggregate principal amount of unsecured senior notes in private placements and issued $1.5 billion in registered unsecured senior notes.

In 2010, ILFC amended its $2.5 billion revolving credit facility to, among other things, extend the maturity date of $2.16 billion from October 2011 to October 2012. In December 2010, ILFC paid down $800 million of this revolving credit facility. The amended facility prohibits ILFC from re-borrowing amounts repaid under this facility for any reason; therefore the size of the outstanding facility is $1.7 billion. In addition, in January 2011 ILFC entered into an unsecured three-year $2.0 billion revolving credit facility. This revolving credit facility includes restrictive covenants that, among other things, restrict ILFC from entering into secured financings in excess of 30 percent of its consolidated tangible net assets, as defined in the agreement, less $2.0 billion, which results in an amount of approximately $10.0 billion. ILFC may borrow under this facility for general corporate purposes. For further discussion of the terms and conditions relating to ILFC's credit facilities, see Credit Facilities below.

ILFC Notes and Bonds Payable

As of December 31, 2010, notes and bonds aggregating $16.9 billion were outstanding with maturity dates ranging from 2011 to 2020. To the extent considered appropriate, ILFC may enter into swap transactions to manage its effective borrowing rates with respect to these notes and bonds.

ILFC ECA Facilities

ILFC has a $4.3 billion 1999 ECA Facility that was used in connection with the purchase of 62 Airbus aircraft delivered through 2001. The interest rate varies from 5.83 percent to 5.86 percent on these amortizing ten-year borrowings depending on the delivery date of the aircraft. At December 31, 2010, ILFC had five loans with a remaining principal balance of $13 million outstanding under this facility. At December 31, 2010, the net book value of the related aircraft was $1.6 billion.

ILFC has a similarly structured 2004 ECA Facility, which was amended in May 2009 to allow ILFC to borrow up to a maximum of $4.6 billion to fund the purchase of Airbus aircraft delivered through June 30, 2010. At December 31, 2010, ILFC had financed 76 aircraft using approximately $4.3 billion under this facility and approximately $2.8 billion was outstanding. At December 31, 2010, the interest rate of the loans outstanding ranged from 0.43 percent to 4.71 percent. At December 31, 2010, the net book value of the related aircraft was $4.3 billion.

Borrowings with respect to these facilities are included in ILFC's notes and bonds payable in the table below. New financings are no longer available to ILFC under either the 1999 or 2004 ECA facility.

ILFC Bank Financings and Other Secured Financings

At December 31, 2010, the total funded amount of ILFC's revolving credit facility was $1.7 billion, of which approximately $1.5 billion is secured. The maturity of the facility, as amended, is $235 million in October 2011 and approximately $1.5 billion in October 2012. At December 31, 2010, the interest rates ranged from 0.95 percent to 2.45 percent. In addition, at December 31, 2010, ILFC has other secured financings of approximately $5.3 billion that mature through 2018, with interest rates ranging from 3.41 percent to 7.13 percent.

On January 31, 2011, ILFC entered into an unsecured $2.0 billion three-year revolving credit facility.

AIG does not guarantee any of the debt obligations of ILFC. See Note 15 to the Consolidated Financial Statements Debt Outstanding for further details on ILFC's outstanding debt.

Credit Facilities

AIG relies on credit facilities as a potential source of liquidity for general corporate purposes. Currently, AIG, Chartis, Inc. and ILFC maintain committed, revolving credit facilities and a letter of credit facility summarized in the following table for general corporate purposes. AIG, Chartis Inc. and ILFC intend to replace or extend these credit facilities on or prior to their expiration, although no assurance can be given that this will be possible. One

of the facilities, as noted below, contains a "term-out option" allowing for the conversion by the borrower of any outstanding loans at expiration into one-year term loans. All facilities, except for the ILFC five-year syndicated credit facility dated October 13, 2006, are unsecured.

At February 16, 2011 *(in millions)* **Facility**	**Size**	**Borrower(s)**	**Available Amount**	**Expiration**	**One-Year Term-Out Option**	**Effective Date**
AIG:						
364-Day Syndicated Facility	$ 1,500	AIG	$ 1,500	January 2012	Yes	1/14/2011
3-Year Syndicated Facility	1,500	AIG	1,500	January 2014	No	1/14/2011
Total AIG	$ 3,000		$ 3,000			
Chartis 364-Day Syndicated Letter of Credit Facility	$ 1,300	Chartis	$ -	January 2012	No	1/14/2011
ILFC:						
5-Year Syndicated Facility[(a)]	$ 235	ILFC	$ -	October 2011	No	10/13/2006
5-Year Syndicated Facility[(a)(b)]	1,465	ILFC	-	October 2012	No	10/13/2006
3-Year Syndicated Facility	2,000	ILFC	2,000	January 2014	No	1/31/2011
Total ILFC	$ 3,700		$ 2,000			

(a) *Prior to April 16, 2010, ILFC had a $2.5 billion five-year syndicated facility which was scheduled to expire in October 2011. On April 16, 2010, ILFC extended the maturity date of $2.16 billion of its $2.5 billion revolving credit facility from October 2011 to October 2012. In December 2010, ILFC paid down $800 million on the $2.5 billion revolving credit facility. The amended facility prohibits ILFC from re-borrowing amounts repaid under this facility for any reason; therefore the size of the outstanding facility is $1.7 billion.*

(b) *During 2010 ILFC entered into amendments to this revolving credit facility. Upon effectiveness of these amendments, the previously unsecured bank debt became secured by the equity interest in certain of its non-restricted subsidiaries, which hold a pool of aircraft with an appraised value of not less than 133 percent of the principal amount of the outstanding loans.*

AIG's ability to borrow under these facilities is conditioned on satisfaction of certain legal, operating, administrative and financial covenants and other requirements contained in the facilities, including covenants relating to AIG's maintenance of a specified total consolidated net worth and consolidated total debt to consolidated total capitalization. Failure to satisfy these and other requirements contained in the credit facilities would restrict AIG's access to the facilities when needed and, consequently, could have a material adverse effect on AIG's financial condition and results of operations.

The Chartis letter of credit facility provides for the issuance of letters of credit in favor of certain of its general insurance companies to permit those companies to obtain statutory recognition of reinsurance recoverables from unauthorized reinsurers. This facility requires Chartis to maintain a minimum combined statutory surplus and a minimum combined net worth, and contains certain customary affirmative and negative covenants, including limitations with respect to incurrence of certain types of indebtedness or liens, certain dispositions, entry into certain

restrictive agreements and transactions with affiliates and certain fundamental changes, as well as customary events of default.

ILFC's three-year credit facility which became effective January 31, 2011 contains customary events of default and restrictive financial covenants that require ILFC to maintain a minimum fixed charge coverage ratio, a minimum consolidated tangible net worth, and a maximum ratio of consolidated debt to consolidated tangible net worth.

Credit Ratings

The cost and availability of unsecured financing for AIG and its subsidiaries are generally dependent on their short-and long-term debt ratings. The following table presents the credit ratings of AIG and certain of its subsidiaries as of February 16, 2011. In parentheses, following the initial occurrence in the table of each rating, is an indication of that rating's relative rank within the agency's rating categories. That ranking refers only to the

generic or major rating category and not to the modifiers appended to the rating by the rating agencies to denote relative position within such generic or major category.

	Short-Term Debt		Senior Long-Term Debt		
	Moody's	**S&P**	**Moody's**[(a)]	**S&P**[(b)]	**Fitch**[(c)]
AIG	P-2 (2nd of 3) *Stable Outlook*	A-2 (2nd of 8)	Baa 1 (4th of 9) *Stable Outlook*	A- (3rd of 8) *Negative Outlook*	BBB (4th of 9) *Stable Outlook*
AIG Financial Products Corp.[(d)]	P-2 *Stable Outlook*	A-2	Baa 1 *Stable Outlook*	A- *Negative Outlook*	-
AIG Funding, Inc.[(d)]	P-2 *Stable Outlook*	A-2	-	-	-
ILFC	Not prime *Stable Outlook*	-	B1 (6th of 9) *Stable Outlook*	BBB-(4th of 8) *Negative Outlook*	BB (5th of 9) *Evolving Outlook*

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

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

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

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

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

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

A significant portion of the GIAs, structured financing arrangements and financial derivative transactions have provisions that require collateral to be posted upon a downgrade of AIG's long-term debt ratings or, with the consent of the counterparties, assignment or repayment of the positions or arrangement of a substitute guarantee of AIG's obligations by an obligor with higher debt ratings. Furthermore, certain downgrades of AIG's long-term senior debt ratings would permit either AIG or the counterparties to elect early termination of contracts.

The actual amount of collateral required to be posted to counterparties in the event of such downgrades, or the aggregate amount of payments that AIG could be required to make, depends on market conditions, the fair value of outstanding affected transactions and other factors prevailing at the time of the downgrade. For a discussion of the effects of downgrades in the financial strength ratings of AIG's insurance companies or AIG's credit ratings, see Item 1A. Risk Factors Credit and Financial Strength Ratings.

American International Group, Inc., and Subsidiaries

Contractual Obligations

The following table summarizes contractual obligations in total, and by remaining maturity:

At December 31, 2010	**Total**		**Payments due by Period**		
			2012 -	**2014 -**	
(in millions)	**Payments**	**2011**	**2013**	**2015**	**Thereafter**
Borrowings[a]	$ 82,862	$ 10,323	$ 16,031	$ 9,223	$ 47,285
FRBNY Credit Facility[b]	20,985	-	20,985	-	-
Interest payments on borrowings	51,940	4,531	9,532	5,963	31,914
Loss Reserves	91,151	20,235	25,157	14,074	31,685
Insurance and investment contract liabilities	462,496	18,743	32,916	30,706	380,131
Aircraft purchase commitments	13,533	282	1,742	3,523	7,986
Operating leases	2,054	429	657	422	546
Other long-term obligations[c]	365	61	95	80	129
Total[d]	$ 725,386	$ 54,604	$ 107,115	$ 63,991	$ 499,676

(a) *Reflects completion of an offer to exchange Equity Units (and therefore the underlying subordinated debt) for AIG Common Stock and cash.*

(b) *The FRBNY Credit Facility was fully repaid and terminated on January 14, 2011, the closing date of the Recapitalization.*

(c) *Primarily includes contracts to purchase future services and other capital expenditures.*

(d) *Does not reflect unrecognized tax benefits of $5.3 billion, the timing of which is uncertain. In addition, the majority of Capital Markets' credit default swaps require AIGFP to provide credit protection on a designated portfolio of loans or debt securities. At December 31, 2010, the fair value derivative liability was $3.5 billion relating to AIGFP's super senior multi-sector CDO credit default swap portfolio, net of amounts realized in extinguishing derivative obligations. Due to the long-term maturities of these credit default swaps, AIG is unable to make reasonable estimates of the periods during which any payments would be made. However, at December 31, 2010 AIGFP had posted collateral of $3.0 billion with respect to these swaps (prior to offsets for other transactions).*

Borrowings

AIG's borrowings exclude those incurred by consolidated investments and include hybrid financial instrument liabilities recorded at fair value. The repayment of long-term debt maturities and interest accrued on borrowings by AIG and its subsidiaries is expected to be made through maturing investments and asset sales, future cash flows from operations, cash flows generated from invested assets, future debt issuance and other financing arrangements, as more fully described in Liquidity of Parent and Subsidiaries.

Loss Reserves

Loss reserves relate primarily to Chartis business, but also include Mortgage Guaranty reserves, and represent future loss and loss adjustment expense payments estimated based on historical loss development payment patterns. Due to the significance of the assumptions used, the payments by period presented above could be materially different from actual required payments.

Management believes that adequate financial resources are maintained by the individual Chartis and UGC subsidiaries to meet the actual required payments under these obligations. These subsidiaries maintain substantial liquidity in the form of cash and short-term investments. Further, these businesses maintain significant levels of investment-grade fixed income securities, including substantial holdings in government and corporate bonds (see Investments herein), which Chartis and UGC could seek to monetize in the event operating cash flows are insufficient.

See Capital Resources and Liquidity Liquidity Analysis of Sources and Uses of Cash and Capital Resources and Liquidity Liquidity Liquidity of Parent and Subsidiaries for matters that could affect operating cash flows and liquidity of the subsidiaries.

American International Group, Inc., and Subsidiaries

Insurance and Investment Contract Liabilities

Insurance and investment contract liabilities, including GIC liabilities, relate primarily to SunAmerica businesses and include various investment-type products with contractually scheduled maturities, including periodic payments of a term certain nature. Insurance and investment contract liabilities also include benefit and claim liabilities, of which a significant portion represents policies and contracts that do not have stated contractual maturity dates and may not result in any future payment obligations. For these policies and contracts (i) AIG is currently not making payments until the occurrence of an insurable event, such as death or disability, (ii) payments are conditional on survivorship or (iii) payment may occur due to a surrender or other non-scheduled event out of AIG's control.

AIG has made significant assumptions to determine the estimated undiscounted cash flows of these contractual policy benefits, which assumptions include mortality, morbidity, future lapse rates, expenses, investment returns and interest crediting rates, offset by expected future deposits and premiums on in-force policies. Due to the significance of the assumptions used, the periodic amounts presented could be materially different from actual required payments. The amounts presented in this table are undiscounted and therefore exceed the future policy benefits and policyholder contract deposits included in the Consolidated Balance Sheet.

Management believes that adequate financial resources are maintained by individual SunAmerica subsidiaries to meet the payments actually required under these obligations. These subsidiaries maintain substantial liquidity in the form of cash and short-term investments. In addition, SunAmerica businesses maintain significant levels of investment-grade fixed income securities, including substantial holdings in government and corporate bonds (see Investments herein), which SunAmerica could seek to monetize in the event operating cash flows are insufficient. Liquidity needs for GIC liabilities are generally expected to be funded through cash flows generated from maturities and sales of invested assets. See Capital Resources and Liquidity Liquidity Analysis of Sources and Uses of Cash and Capital Resources and Liquidity Liquidity Liquidity of Parent and Subsidiaries for matters that could affect operating cash flows and liquidity of the subsidiaries.

Aircraft Purchase Commitments

At December 31, 2010, ILFC had committed to purchase 115 new aircraft deliverable from 2011 through 2019, at an estimated aggregate purchase price of approximately $13.5 billion, the majority of which is due after 2015, with $282 million coming due in 2011. See Note 16 to the Consolidated Financial Statements, and Liquidity of Parent and Subsidiaries Financial Services ILFC.

Off-Balance Sheet Arrangements and Commercial Commitments

The following table summarizes Off-Balance Sheet Arrangements and Commercial Commitments in total, and by remaining maturity:

December 31, 2010	**Total Amounts**	**Amount of Commitment Expiration**			
(in millions)	**Committed**	**2011**	**2012 - 2013**	**2014 - 2015**	**Thereafter**
Guarantees:					
Liquidity facilities[a]	$ 849	$ 748	$ -	$ -	$ 101
Standby letters of credit	990	964	14	11	1
Construction guarantees[b]	37	37	-	-	-
Guarantees of indebtedness	202	-	-	-	202
All other guarantees[c]	632	30	149	140	313
Commitments:					
Investment commitments[d]	3,947	1,900	1,247	637	163
Commitments to extend credit	197	119	39	38	1
Letters of credit	1,553	252	1,301	-	-
Other commercial commitments[e]	776	14	-	-	762
Total[f]	$ 9,183	$ 4,064	$ 2,750	$ 826	$ 1,543

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

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

(c) *Excludes potential amounts attributable to indemnifications included in asset sales agreements. See Note 16 to the Consolidated Financial Statements.*

(d) *Includes commitments to invest in limited partnerships, private equity, hedge funds and mutual funds and commitments to purchase and develop real estate in the United States and abroad. The commitments to invest in limited partnerships and other funds are called at the discretion of each fund, as needed for funding new investments or expenses of the fund. The expiration of these commitments is estimated in the table above based on the expected life cycle of the related fund, consistent with past trends of requirements for funding. Investors under these commitments are primarily insurance and real estate subsidiaries.*

(e) *Includes options to acquire aircraft. Excludes commitments with respect to pension plans. The annual pension contribution for 2011 is expected to be approximately $144 million for U.S. and non-U.S. plans.*

(f) *Does not include guarantees, capital maintenance agreements or other support arrangements among AIG consolidated entities.*

Securities Financing

The fair value of securities transferred under repurchase agreements accounted for as sales was $2.7 billion and $2.3 billion at December 31, 2010 and December 31, 2009, respectively, and the related cash collateral obtained was $2.1 billion and $1.5 billion at December 31, 2010 and December 31, 2009, respectively.

Arrangements with Variable Interest Entities

While AIG enters into various arrangements with variable interest entities (VIEs) in the normal course of business, AIG's involvement with VIEs is primarily as a passive investor in fixed maturities (rated and unrated) and equity interests issued by VIEs. AIG consolidates a VIE when it is the primary beneficiary of the entity. For a further discussion of AIG's involvement with VIEs, see Notes 2 and 11 to the Consolidated Financial Statements.

Indemnification Agreements

AIG is subject to financial guarantees and indemnity arrangements in connection with the 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 no such limitation is specified or applicable.

Where estimable, AIG has recorded liabilities for certain of these arrangements. These liabilities are not material in the aggregate. AIG is unable to develop a reasonable estimate of the maximum potential payout under certain of these arrangements. Overall, AIG believes that it is unlikely it will have to make any material payments related to completed sales under these arrangements. See Note 16 to the Consolidated Financial Statements for additional information regarding indemnification provisions for the ALICO, AGF, AIG Star and AIG Edison sales.

Dividends from Insurance Subsidiaries

Payments of dividends to AIG by its insurance subsidiaries are subject to certain restrictions imposed by regulatory authorities. With respect to AIG's domestic insurance subsidiaries, the payment of any dividend requires formal notice to the insurance department in which the particular insurance subsidiary is domiciled. For example, unless permitted by the New York Superintendent of Insurance, general insurance companies domiciled in New York may not pay dividends to shareholders that, in any 12-month period, exceed the lesser of ten percent of such company's statutory policyholders' surplus or 100 percent of its "adjusted net investment income," as defined. Generally, less severe restrictions applicable

to both general and life insurance companies exist in most of the other states in which AIG's insurance subsidiaries are domiciled. Under the laws of many states, an insurer

may pay a dividend without prior approval of the insurance regulator when the amount of the dividend is below certain regulatory thresholds. Other foreign jurisdictions may restrict the ability of AIG's foreign insurance subsidiaries to pay dividends. There are also various local restrictions limiting cash loans and advances to AIG by its subsidiaries. Largely as a result of these restrictions, approximately 80 percent of the aggregate equity of AIG's consolidated subsidiaries was restricted from transfer to AIG Parent at December 31, 2010. AIG cannot predict how regulatory investigations may affect the ability of its regulated subsidiaries to pay dividends. To AIG's knowledge, no AIG insurance company is currently on any regulatory or similar "watch list" with regard to solvency.

Regulation and Supervision

AIG's insurance subsidiaries, like other insurers, are subject to regulation and supervision by the states and jurisdictions in which they do business. AIG Parent is not generally subject to supervision by state regulators, but certain transactions, such as those involving statutorily designated transactions with its insurance company subsidiaries and any transaction involving a change in control of AIG or any of its insurance company subsidiaries, may require the prior approval of state regulators. In the United States, the NAIC has developed Risk-Based Capital (RBC) Model Law requirements. RBC relates an individual insurance company's statutory surplus to the risk inherent in its overall operations.

AIG's insurance subsidiaries file financial statements prepared in accordance with statutory accounting practices prescribed or permitted by domestic and foreign insurance regulatory authorities. The principal differences between statutory financial statements for domestic companies and financial statements prepared in accordance with U.S. GAAP are that in statutory financial statements acquisition costs are expensed instead of being deferred, a large portion of the bond portfolios may be carried at amortized cost, securities are valued on a different basis, assets and liabilities are presented net of reinsurance, policyholder liabilities are valued using more conservative assumptions and certain assets are not admitted under statutory accounting practices and are charged directly to surplus. Further, statutory accounting practices do not give recognition to purchase accounting adjustments and require certain other reserves not required by U.S. GAAP.

As discussed under Note 16(a) to the Consolidated Financial Statements, various regulators have commenced investigations into certain insurance business practices. In addition, insurance regulators routinely conduct examinations of AIG and its subsidiaries. AIG cannot predict the ultimate effect that these investigations and examinations, or any additional regulation arising therefrom, might have on its business. Federal, state or local legislation, including Dodd-Frank, may affect AIG's ability to operate its various financial services businesses, and changes in the current laws, regulations or interpretations thereof may have a material adverse effect on these businesses. See Item 1A. Risk Factors for additional information.

AIG's U.S. operations are negatively affected under guarantee fund assessment laws which exist in most states. As a result of operating in a state that has guarantee fund assessment laws, a solvent insurance company may be assessed for certain obligations arising from the insolvencies of other insurance companies operated in that state. AIG generally records these assessments upon notice. Additionally, certain states permit at least a portion of the assessed amount to be used as a credit against a company's future premium tax liabilities. Therefore, the ultimate net assessment cannot reasonably be estimated. The guarantee fund assessments net of credits recognized in 2010, 2009 and 2008, respectively, were $16 million, $18 million and $12 million.

AIG is also required to participate in various involuntary pools (principally workers' compensation business and, internationally, personal automobile business) that provide insurance coverage for those not able to obtain such coverage in the voluntary markets. This participation is also recorded upon notification, as these amounts cannot reasonably be estimated.

A substantial portion of Chartis' business is conducted in foreign countries. The degree of regulation and supervision in foreign jurisdictions varies. Generally, AIG, as well as the underwriting companies operating in such jurisdictions, must satisfy local regulatory requirements. Licenses issued by foreign authorities to AIG subsidiaries are subject to modification and revocation. Thus, AIG's insurance subsidiaries could be prevented from conducting future business in certain of the jurisdictions where they currently operate. AIG's international operations include operations in various developing nations. Both current and future foreign operations could be adversely affected by unfavorable political developments up to and including nationalization of AIG's operations without compensation. Adverse effects resulting from any one country may affect AIG's results of operations, liquidity and financial condition depending on the magnitude of the event and AIG's net financial exposure at that time in that country.

Foreign insurance operations are individually subject to local solvency margin requirements that require maintenance of adequate capitalization, with which AIG complies in each country. In addition, certain foreign locations, notably Japan, have established regulations that can result in guarantee fund assessments. These have not had a material effect on AIG's financial condition or results of operations.

See Note 18 to the Consolidated Financial Statements.

American International Group, Inc., and Subsidiaries

Results of Operations

AIG reports the results of its operations through three reportable segments: Chartis (formerly General Insurance), SunAmerica (formerly Domestic Life Insurance & Retirement Services), and Financial Services. Through these reportable segments, AIG provides insurance, financial and investment products and services to both businesses and individuals in more than 130 countries. AIG's subsidiaries serve commercial, institutional and individual customers through an extensive property-casualty and life insurance and retirement services network. AIG's Financial Services businesses include commercial aircraft and equipment leasing and the wind-down of Capital Markets operations, both in the United States and abroad. AIG's Other operations category consists of businesses and items not allocated to AIG's reportable segments.

Consolidated Results

The following table presents AIG's consolidated results of operations:

Years Ended December 31, *(in millions)*	**2010**	**2009**	**2008**	**Percentage Increase/(Decrease) 2010 vs. 2009**	**2009 vs. 2008**
Revenues:					
Premiums and other considerations	**$ 48,029**	$ 51,239	$ 63,137	(6)%	(19)%
Net investment income	**20,930**	18,987	10,453	10	82
Net realized capital losses	**(279)**	(5,210)	(46,794)	-	-
Unrealized market valuation gains (losses) on Capital Markets super senior credit default swap portfolio	**598**	1,418	(28,602)	(58)	-
Other income	**8,023**	8,918	(5,034)	(10)	-
Total revenues	**77,301**	75,352	(6,840)	3	-
Benefits, claims and expenses:					
Policyholder benefits and claims incurred	**45,874**	50,015	51,036	(8)	(2)
Policy acquisition and other insurance expenses	**15,820**	15,864	20,833	-	(24)
Interest expense	**7,859**	14,238	15,713	(45)	(9)
Restructuring expenses and related asset impairment and other expenses	**574**	1,149	771	(50)	49
Net (gain) loss on sale of divested businesses and properties	**(17,767)**	1,271	-	-	-
Other expenses	**7,005**	7,122	7,836	(2)	(9)
Total benefits, claims and expenses	**59,365**	89,659	96,189	(34)	(7)
Income (loss) from continuing operations before income tax expense (benefit)	**17,936**	(14,307)	(103,029)	-	-
Income tax expense (benefit)	**5,859**	(1,489)	(9,683)	-	-
Income (loss) from continuing operations	**12,077**	(12,818)	(93,346)	-	-
Income (loss) from discontinued operations, net of income tax expense (benefit)	**(2,064)**	505	(7,041)	-	
Net income (loss)	**10,013**	(12,313)	(100,387)	-	-
Less: Net income (loss) attributable to noncontrolling interests	**2,227**	(1,364)	(1,098)	-	

Net income (loss) attributable to AIG	**$ 7,786**	$ (10,949)	$ (99,289)	-%	-%

Premiums and Other Considerations

2010 and 2009 Comparison

Premiums and other considerations decreased in 2010 compared to 2009 primarily due to a reduction of $3.3 billion related to 2009 dispositions that did not meet the criteria for discontinued operations accounting. These dispositions included HSB Group, Inc. (HSB), 21st Century and AIG Life Canada in 2009 as well as the deconsolidation of Transatlantic.

2009 and 2008 Comparison

Premiums and other considerations decreased in 2009 compared to 2008 primarily due to:

- the effect of dispositions during 2009 noted above;
- a decline in Chartis U.S. net premiums written due to reductions in workers' compensation, construction, real estate and transportation lines of business;
- a decrease in Chartis International due to the negative effect of foreign exchange;
- a decrease in SunAmerica premiums, primarily due to lower payout annuities and the sale of AIG Life Canada; and
- a decrease in AIA primarily due to generally weak economic conditions and lower fee income related to investment-linked products.

Net Investment Income

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

	Years Ended December 31,			Percentage Increase/(Decrease)	
(in millions)	**2010**	**2009**	**2008**	**2010 vs. 2009**	**2009 vs. 2008**
Fixed maturities, including short-term investments	**$ 14,445**	$ 14,535	$ 16,326	(1)%	(11)%
ML II	**513**	(25)	(211)	-	-
ML III	**1,792**	419	(900)	328	-
Change in fair value of AIA securities*	**(638)**	-	-	-	-
Change in fair value of MetLife securities	**665**	-	-	-	-
Other equity securities	**326**	372	361	(12)	3
Interest on mortgage and other loans	**1,268**	1,347	1,278	(6)	5
Partnerships	**1,602**	4	(2,084)	-	-
Mutual funds	**(25)**	315	(799)	-	-
Real estate	**126**	139	258	(9)	(46)
Other investments	**465**	120	521	288	(77)
	20,539	17,226	14,750	19	17

Total investment income before policyholder income and trading gains					
Policyholder investment income and trading gains (losses)	**886**	2,305	(3,504)	(62)	-
Total investment income	**21,425**	19,531	11,246	10	74
Investment expenses	**495**	544	793	(9)	(31)
Net investment income	**$ 20,930**	$ 18,987	$ 10,453	10%	82%

* *Represents change in fair value measured from the closing sale price on the October 29, 2010 initial date of trading.*

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2010 and 2009 Comparison

Net investment income increased in 2010 compared to 2009 primarily due to significantly higher income from partnership investments due to an improved market environment compared to 2009, and increased valuation gains associated with AIG's interest in ML II and ML III.

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

2009 and 2008 Comparison

Net investment income increased in 2009 compared to 2008 primarily due to:

- policyholder trading gains in 2009 noted above compared to losses in 2008;
- gains associated with the change in fair value of AIG's investment in ML III compared to losses in 2008; and
- income from mutual fund investments and partnerships in 2009 compared to losses in 2008 reflecting more stable market conditions in 2009 than in 2008.

These increases were partially offset by lower levels of invested assets, including the effect of divested businesses in 2009, compared to 2008 and lower returns as a result of increased levels of short-term investments that were held for liquidity purposes.

Net Realized Capital Gains (Losses)

(in millions)	Years Ended December 31, 2010	2009	2008
Sales of fixed maturity securities	**$ 1,846**	$ 849	$ (4,906)
Sales of equity securities	**725**	303	158
Sales of real estate and loans	**153**	(18)	136
Other-than-temporary impairments:			
Severity	**(73)**	(1,510)	(23,213)
Change in intent	**(441)**	(958)	(10,806)
Foreign currency declines	**(63)**	(112)	(1,356)
Issuer-specific credit events	**(2,457)**	(3,979)	(4,874)
Adverse projected cash flows on structured securities	**(5)**	(137)	(1,618)
Provision for loan losses	**(304)**	(614)	-
Foreign exchange transactions	**178**	(616)	2,028
Derivative instruments	**453**	1,724	(3,313)
Other	**(291)**	(142)	970
Net realized capital losses	**$ (279)**	$ (5,210)	$ (46,794)

2010 and 2009 Comparison

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

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

lower other-than-temporary impairment charges in the current year. Affecting the comparison was the adoption of the new other-than-temporary impairments accounting standard commencing in the second quarter of 2009. The three-month period ended March 31, 2009 included non-credit impairments (i.e., severity losses) that are no longer required for fixed maturity securities unless it is likely and

management has the intent to sell such securities. See Note 7 to the Consolidated Financial Statements; and Investments Other-Than-Temporary Impairments; and

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

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

2009 and 2008 Comparison

Net realized capital losses decreased in 2009 compared to 2008 primarily due to the following:

the 2008 period included severity losses throughout the year that are no longer required for fixed maturity securities as noted above. Additionally, other-than-temporary impairments declined from the 2008 period due to improved market conditions. See Note 7 to the Consolidated Financial Statements; and Investments Other-Than-Temporary Impairments;

gains on sales of fixed maturity securities in 2009 compared to losses in 2008 reflecting improvement in the credit markets; and

gains on derivative instruments not qualifying for hedge accounting treatment in 2009 compared to losses in 2008 resulting from weakening of the U.S. dollar in 2009.

Partially offsetting the above items were losses on sales of real estate and other assets in 2009. Additionally, Net realized capital losses includes foreign exchange translation losses in 2009 compared to gains in 2008 primarily resulting from the weakening of the U.S. dollar.

Unrealized Market Valuation Gains (Losses) on Capital Markets Super Senior Credit Default Swap Portfolio

2010 and 2009 Comparison

The unrealized market valuation gains decreased in 2010 compared to 2009 as a result of losses in the corporate arbitrage portfolio caused by increasing corporate spreads in 2010 and decreasing corporate spreads in 2009, offset by improved prices of the underlying assets in the multi-sector CDO portfolio in 2010 compared to 2009.

2009 and 2008 Comparison

Capital Markets reported unrealized market valuation gains related to its super senior credit default swap portfolio in 2009 and unrealized market valuation losses in 2008. The change in the unrealized market valuation gains (losses) related to Capital Markets' super senior credit default swap portfolio was due to the substantial decline in outstanding net notional amount resulting from the termination of contracts in the fourth quarter of 2008 associated with the ML III transaction and the improvement in market conditions in 2009, as well as the narrowing of corporate credit spreads.

See Segment Results Financial Services Operations Financial Services Results Capital Markets Results and Critical Accounting Estimates Valuation of Level 3 Assets and Liabilities and Note 6 to the Consolidated Financial Statements.

Other Income

2010 and 2009 Comparison

Other income decreased in 2010 compared to 2009 due to:

- a decline of $975 million in credit valuation adjustments on Capital Markets' derivative assets and liabilities which are measured at fair value, excluding gains and losses, which are reflected in Unrealized gains (losses)

on Capital Markets super senior credit default swap portfolio, partially offset by reduced losses from AIGFP from lower unwind costs; and

a decline of $1.0 billion in credit valuation adjustments on Direct Investment business assets and liabilities which are measured at fair value.

This decrease was partially offset by a bargain purchase gain recorded by Chartis International of $332 million related to the Fuji acquisition.

2009 and 2008 Comparison

Other income increased in 2009 compared to 2008 due to:

net credit valuation adjustment gains of $2.8 billion in 2009 compared to net credit valuation adjustment losses of $9.5 billion in 2008 on Capital Markets and Direct Investment business assets and liabilities which are measured at fair value, excluding gains and losses which are reflected in Unrealized gains (losses) on Capital Markets' super senior credit default swap portfolio; and

an improvement of $5.5 billion reflecting the positive effect of hedging activities that did not qualify for hedge accounting, which was driven by the weakening of the U.S. dollar against most major currencies during 2009.

These increases were partially offset by:

a $2.4 billion decline in Institutional Asset Management revenues due to impairments on proprietary real estate and private equity investments and lower base management fees on lower base assets under management in 2009; and

a decline of $1.0 billion in income from consolidated managed partnerships and funds, which is partially offset by Net income (loss) attributable to noncontrolling interests.

Policyholder Benefits and Claims Incurred

2010 and 2009 Comparison

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

a reduction of $2.2 billion as a result of the dispositions in 2009 noted above that did not meet the criteria for discontinued operations accounting;

a decrease in incurred policy losses and benefit expenses for AIA of $1.3 billion related to a decline in policyholder trading gains which are discussed above in Net Investment Income; and

a decrease in claims and claims adjustment expense of $2.4 billion for Mortgage Guaranty operations primarily due to lower levels of newly reported delinquencies in the first-lien, second-lien and international products, higher cure rates on existing first-lien and international delinquent loans and the recognition of stop loss limits on certain second-lien policies.

Partially offsetting these declines were:

- the net $4.3 billion of reserve strengthening in 2010 compared to $2.8 billion in 2009;
- increased catastrophe losses for Chartis; and
- the effect of the consolidation of Fuji in 2010.

See Chartis results herein for further discussion.

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2009 and 2008 Comparison

Policyholder benefits and claims incurred decreased in 2009 compared to 2008 due to:

- a reduction of $4.0 billion due to dispositions in 2009 noted above;
- catastrophe-related losses of $53 million in 2009 compared to $1.8 billion in 2008 (losses in 2008 were primarily related to hurricanes Ike and Gustav); and
- the effects of lower production levels for Chartis and SunAmerica.

These decreases were partially offset by:

- higher incurred policy losses and benefits expenses for AIA due to policyholder trading gains of $2.3 billion in 2009 compared to policyholder trading losses of $3.5 billion in 2008 as discussed above in Net Investment Income; and
- adverse development from prior years in Chartis U.S. primarily for excess casualty and excess workers' compensation and increased current year losses in Chartis International from exposure to financial lines claims.

Policy Acquisition and Other Insurance Expenses

2010 and 2009 Comparison

Policy acquisition and other insurance expenses decreased slightly in 2010 compared to 2009 as a result of a reduction of $947 million related to the dispositions in 2009 noted above, partially offset by increased expenses at Chartis, primarily resulting from the consolidation of Fuji noted above.

2009 and 2008 Comparison

Policy acquisition and other insurance expenses decreased in 2009 compared to 2008 primarily due to:

- a reduction of $1.9 billion due to dispositions in 2009 noted above;
- a reduction of $3.3 billion due to goodwill impairment charges recorded in 2008 from Chartis U.S., primarily related to goodwill of HSB, SunAmerica and Other businesses; and
- the effects of lower production levels for Chartis, SunAmerica's domestic retirement services business and AIA.

Interest Expense

Interest expense decreased in 2010 primarily due to lower interest expense on the FRBNY Credit Facility reflecting a reduced weighted average interest rate on borrowings, a lower average outstanding balance and a decline in amortization of the prepaid commitment fee asset as set forth below. Interest expense decreased in 2009 compared to 2008 primarily due to lower interest expense on the FRBNY Credit Facility reflecting a reduced weighted average interest rate on borrowings. However, because the facility was outstanding for the full year in 2009 compared to only 107 days in 2008, the favorable impact was largely offset.

Years Ended December 31, *(dollars in millions)*	**2010**	2009	2008
Weighted average interest rate*	**3.3%**	4.5%	10.6%
Average outstanding balance (excluding paid in kind interest)*	**$ 18,775**	$ 37,358	$ 52,439
Periodic amortization of prepaid commitment fee asset*	**$ 1,766**	$ 3,174	$ 2,703
Accelerated amortization of prepaid commitment fee asset*	**$ 1,705**	$ 5,185	$ 6,576

* *The FRBNY Credit Facility was repaid in full and terminated upon the closing of the Recapitalization on January 14, 2011.*

Restructuring Expenses and Related Asset Impairment and Other Expenses

In the fourth quarter of 2008, following receipt of federal government assistance, AIG commenced an organization-wide restructuring plan, which AIG continued to develop and modify throughout 2010. Restructuring expenses decreased in 2010 reflecting progress made under the restructuring plan and asset disposition initiatives. Restructuring expenses increased in 2009 compared to 2008 due to an increase in professional fees related to disposition activities and AIG's transactions with the FRBNY and the Department of the Treasury. See Note 23 to the Consolidated Financial Statements for additional discussion regarding restructuring and separation expenses.

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

Net (gain) loss on sale of divested businesses and properties includes the net (gain) loss on the sale of divested businesses that did not qualify as discontinued operations as well as gains and losses from property disposals in connection with AIG's restructuring program. The gain in 2010 primarily represents a gain of $16.3 billion on the sale of 67 percent of AIA, a gain of $228 million associated with the termination fee paid by Prudential plc to AIG and a $1.3 billion gain on the sale of the Otemachi building in Japan. See Segment Results Chartis Operations Chartis Results and Other Operations Other Results herein for further information.

Other Expenses

2010 and 2009 Comparison

Other expenses decreased slightly in 2010 compared to 2009 due to:

- goodwill impairment charges of $612 million recorded in 2009 related to the Institutional Asset Management business;
- lower compensation-related costs for the Institutional Asset Management business, including the effect of deconsolidation of certain portfolio investments and the sale of the Swiss bank; and
- lower provisions for credit losses for consumer finance businesses not presented as discontinued operations.

These declines were partially offset by $1.6 billion of ILFC aircraft asset impairment charges and $90 million of operating lease-related charges with respect to aircraft sold, otherwise disposed of or held for sale.

2009 and 2008 Comparison

Other expenses for 2009 decreased compared to 2008 primarily due to lower compensation-related costs for Parent and Other operations and the Institutional Asset Management business, partially offset by the 2009 goodwill impairment charges noted above.

Income Tax Expense (Benefit)

2010, 2009 and 2008 Effective Tax Rates

For the year ended December 31, 2010, the effective tax rate on pretax income from continuing operations was 32.7 percent. The effective tax rate for the year ended December 31, 2010, attributable to continuing operations differs from the statutory rate primarily due to tax benefits of $1.3 billion associated with AIG's investment in subsidiaries and partnerships, principally the AIA SPV which is treated as a partnership for U.S. tax purposes, and $587 million associated with tax exempt interest, partially offset by an increase in the valuation allowance attributable to continuing operations of $1.5 billion.

The effective tax rate on the pre-tax loss from continuing operations for the year ended December 31, 2009, differs from the statutory rate primarily due to increases in the valuation allowance of $3.1 billion and reserve for uncertain tax positions of $874 million, partially offset by tax exempt interest of $677 million and the change in investment in subsidiaries and partnerships of $473 million which was principally related

to changes in the estimated U.S. tax liability with respect to the potential sales of subsidiaries.

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The effective tax rate on the pre-tax loss from continuing operations for the year ended December 31, 2008, differs from the statutory rate primarily due to the change in investment in subsidiaries and partnerships of $490 million, effect of foreign operations of $2.5 billion, nondeductible goodwill impairment of $1.3 billion, reserve for uncertain tax positions of $1.0 billion, and an increase in the valuation allowance of $20.1 billion.

See Critical Accounting Estimates Valuation Allowance on Deferred Tax Assets and Note 22 to the Consolidated Financial Statements for additional information.

Discontinued Operations

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

Years Ended December 31, ***(in millions)***	**2010**	2009	2008
Foreign life insurance businesses[(a)]	**$ (1,237)**	$ 2,581	$ (4,941)
AGF	**(145)**	(904)	(434)
Net gain (loss) on sale	**1,588**	(2,758)	-
Consolidation adjustments	**(356)**	54	(302)
Interest allocation[(b)]	**(75)**	(89)	(55)
Loss from discontinued operations	**$ (225)**	$ (1,116)	$ (5,732)
Income tax expense (benefit)	**1,839**	(1,621)	1,309
Income (loss) from discontinued operations, net of tax	**$ (2,064)**	$ 505	$ (7,041)

(a) *Represents results of ALICO, AIG Star, AIG Edison and Nan Shan.*

(b) *Represents interest expense, including periodic amortization of the prepaid commitment fee asset, on the estimated net proceeds from the sale of ALICO that were contractually required to be applied to the FRBNY Credit Facility. See Note 4 to the Consolidated Financial Statements.*

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

- impairments of goodwill in 2010 of $4.6 billion related to ALICO, AIG Star and AIG Edison. See Note 2(k) of Notes to the Consolidated Financial Statements Goodwill for further discussion;
- a pre-tax gain of $4.1 billion on the sale of ALICO in 2010;
- a pre-tax loss of approximately $1.7 billion on the sale of AGF in 2010;
- a pre-tax loss of $2.8 billion recognized in 2009 related to the sale of Nan Shan, as well as an additional loss on sale of $874 million recognized in 2010; and

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

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

Segment Results

AIG believes it should present and discuss its financial information in a manner most meaningful to its financial statement users. Underwriting profit (loss) is utilized to report results for Chartis operations. Operating income (loss), which is before net realized capital gains (losses) and related DAC and SIA amortization and goodwill impairment charges, is utilized to report results for SunAmerica operations. Results from discontinued operations and net gains (losses) on sales of divested businesses are excluded from these measures. AIG believes that these measures allow for a better assessment and enhanced understanding of the operating performance of each business by highlighting the results from ongoing operations and the underlying profitability of its businesses. When such measures are disclosed, reconciliations to GAAP pre-tax income are provided.

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American International Group, Inc., and Subsidiaries

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

Years Ended December 31,				**Percentage Increase/ (Decrease)**	
(in millions)	**2010**	**2009**	**2008**	**2010 vs. 2009**	**2009 vs. 2008**
Total revenues:					
Chartis	**$ 37,196**	$ 35,023	$ 33,793	6%	4%
SunAmerica	**14,747**	11,366	(19,634)	30	-
Financial Services	**5,657**	6,730	(25,426)	(16)	-
Other	**20,425**	24,342	6,670	(16)	265
Consolidation and eliminations	**(724)**	(2,109)	(2,243)	-	-
Total	**77,301**	75,352	(6,840)	3	-
Pre-tax income (loss):					
Chartis	**(116)**	164	(2,488)	-	-
SunAmerica	**2,712**	(1,179)	(34,948)	-	-
Financial Services	**(636)**	2,006	(29,786)	-	-
Other	**15,710**	(14,454)	(34,492)	-	-
Consolidation and eliminations	**266**	(844)	(1,315)	-	-
Total	**$ 17,936**	$ (14,307)	$ (103,029)	-%	-%

Chartis Operations

Chartis, AIG's property and casualty insurance operation, offers a broad range of commercial and consumer insurance products and services worldwide.

Chartis regularly reviews its underlying domestic and international businesses in an effort to determine and ensure proper alignment of its risk profile to its risk tolerance, increase its focus on managing risk, improve results of operations and reduce volatility of its overall returns. As a result of these efforts, Chartis has developed and is executing, a broad-based strategy that includes the following:

Increased production in less capital intensive and higher margin business, including its Commercial Specialty and Consumer lines;

Taking underwriting actions in more capital intensive, long-tail and catastrophe-exposed businesses within the Commercial Casualty and Property lines, including primary and excess workers' compensation, excess casualty and various classes of property business;

Maintenance of strong underwriting discipline in soft market cycles;

Geographic diversity in its overall portfolio through more strategic growth in Chartis International;

More strategic use of reinsurance designed to reduce overall costs, maintain comparable limits, minimize credit exposures and reduce probable maximum losses (PML); and

- Enhancement of Chartis' risk management framework.

Chartis has made significant advancements on these objectives including:

- An overall increase in Consumer lines business by 18.7 percent since 2008 resulting in a significant change in the mix of business. At December 31, 2010, Consumer lines business represented 35 percent of Chartis' net premiums written, compared to 27 percent at December 31, 2008.

- An overall decrease in Commercial lines of 18.5 percent since 2008 also contributing to the significant change in business mix. At December 31, 2010, Commercial lines net premiums written represented 65 percent of Chartis' net premiums written, compared to 73 percent at December 31, 2008. Further,

longer-tail lines of business within Commercial Casualty such as primary workers' compensation, excess workers' compensation and excess casualty business are down 72 percent, 45 percent and 42 percent, respectively since 2006.

Due in large part to the acquisition of Fuji, at December 31, 2010, Chartis International represents 45 percent of Chartis' net premiums written compared to 38 percent at December 31, 2008.

Through a combination of a reduction in its gross writing and reinsurance strategy, since 2008 Chartis reduced its natural catastrophe net PML, on a 1/250 year Occurrence Exceedance Probability (OEP) combined peril basis, by 31 percent. Since 2008, Commercial Property writings are down approximately 10 percent. Further, Chartis has re-balanced its reinsurance purchases through its increased use of natural catastrophe reinsurance in its U.S. business and reduced reinsurance purchases internationally. As part of this program, Chartis secured $875 million in protection for U.S. hurricanes and earthquakes in 2010 through two separate catastrophe bond transactions.

As part of AIG's enhanced enterprise risk management framework, in 2010, Chartis hired a Chief Risk Officer, created Senior ERM teams in Chartis U.S. and each of its Chartis International regions, enhanced its risk procedures and implemented an improved ERM framework.

Chartis evaluates its liabilities for unpaid claims and claims adjustment expenses (loss reserves) including incurred but not yet reported claims (IBNR) and periodically adjusts the loss reserves to reflect management's current best estimate of the ultimate value of the underlying claims. These liabilities are necessarily subject to the impact of future changes in claim severity and frequency, as well as numerous other factors. Although AIG believes that these estimated liabilities are reasonable, because of the extended period of time over which such claims are reported and settled, the subsequent development of these liabilities in future periods may not conform to the assumptions inherent in their determination and, accordingly, may vary materially from the amounts previously recorded.

During calendar years 2010 and 2009, Chartis recorded net adverse loss development for prior accident years of $4.3 billion and $2.8 billion net of discount and loss sensitive premium adjustments, respectively. Approximately 80 percent of the 2010 charges of $4.3 billion, relates to the asbestos, excess casualty, excess workers' compensation, and primary workers' compensation. Further, 83 percent of this charge relates to accident years 2007 and prior (accident years before the financial crisis in 2008) and 65 percent relates to accident 2005 and prior (accident years prior to the start of the managed reduction in these long-tail lines of business).

Approximately 98 percent of the 2009 charge of $2.8 billion relates to excess casualty, excess workers' compensation and asbestos lines of business. Further, 95 percent relates to accident years 2005 and prior (accident years prior to the start of the managed reduction in these long-tail lines of business).

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

Within its Commercial Casualty lines, significant underwriting changes have been made to address historical experience with respect to adverse development. Changes include exiting certain classes of its excess workers' compensation business, increased actuarial involvement in product aggregate pricing and attachments, increased utilization of pricing models with actuarial support, policy form changes, increased policy exclusions and fewer multi-year policies being offered.

As a result of these changes, at December 31, 2010, its most recent overall accident year loss ratios (excluding catastrophes) are in line with management's expectations.

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Chartis Results

The following table presents Chartis' results:

Years Ended December 31, (in millions)	2010	2009	2008	Percentage Increase/ (Decrease) 2010 vs. 2009	2009 vs. 2008
Underwriting results:					
Net premiums written	**$ 31,612**	$ 30,653	$ 34,531	3%	(11)%
Decrease in unearned premiums	**909**	1,608	979	(43)	64
Net premiums earned	**32,521**	32,261	35,510	1	(9)
Claims and claims adjustment expenses incurred	**27,867**	25,362	25,524	10	(1)
Underwriting expenses	**10,114**	9,497	10,757	6	(12)
Underwriting loss	**(5,460)**	(2,598)	(771)	-	-
Investing and other results:					
Net investment income	**4,392**	3,292	2,567	33	28
Net realized capital losses	**(49)**	(530)	(4,284)	-	-
Gain on divested properties	**669**	-	-	-	-
Bargain purchase gain	**332**	-	-	-	-
Pre-tax income (loss)	**$ (116)**	$ 164	$ (2,488)	-%	-%

Chartis Net Premiums Written

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

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

The underwriting environment varies from country to country, as does the degree of litigation activity. Regulation, product type and competition have a direct effect on pricing and consequently on profitability as reflected in underwriting profit and the combined ratio.

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

Years Ended December 31, *(in millions)*	**2010**	**2009**	**2008**	**Percentage Increase/ (Decrease) 2010 vs. 2009**	**Percentage Increase/ (Decrease) 2009 vs. 2008**
Consumer lines:					
Accident & health	**$ 5,434**	$ 5,045	$ 5,220	8%	(3)%
Personal lines	**5,305**	4,016	4,108	32	(2)
Life insurance	**334**	-	-	-	-
Total Consumer lines	**11,073**	9,061	9,328	22	(3)
Commercial lines:					
Casualty	**8,398**	9,082	11,414	(8)	(20)
Property	**3,290**	3,548	3,660	(7)	(3)
Specialty	**8,851**	8,962	10,129	(1)	(12)
Total Commercial lines	**20,539**	21,592	25,203	(5)	(14)
Total net premiums written	**$ 31,612**	$ 30,653	$ 34,531	3%	(11)%

On March 31, 2010, AIG, through a Chartis International subsidiary, purchased additional voting shares in Fuji which resulted in Chartis International gaining control of Fuji. Fuji's financial information is reported on a one-quarter lag. As a result, beginning on July 1, 2010, Fuji's results are included in Chartis International's results.

Chartis' net premiums written increased in 2010 compared to 2009 primarily due to the Fuji acquisition and to a lesser extent strategic growth in higher-margin lines of business. These increases were offset by declines in Commercial businesses in the U.S. and other developed economies and the effects of risk management initiatives of Chartis U.S. designed to reduce its catastrophe-exposed business in property and overall exposure in its long-tail casualty lines. They also reflect Chartis' commitment to maintain price discipline in lines where market rates are unsatisfactory as well as overall rate declines and a decline in ratable exposures such as workers' compensation. Chartis continues to see improved retention, new business submissions, and a relatively stable rate environment; however, net premium writings continue to be affected by a weak economic environment in developed economies and increased competition.

Chartis' net premiums written decreased in 2009 compared to 2008 due to reductions in insurable exposures resulting from the adverse economic conditions on workers' compensation, construction, real estate and transportation classes of business within its Commercial Casualty lines and various classes of professional liability business within its Specialty lines. Additionally, the effects of negative publicity with respect to AIG in 2009 adversely impacted all classes of both consumer and commercial business. The decline in net premiums written was also due to general economic conditions which continued to negatively affect the generation of new business.

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

Years Ended December 31,	**2010 vs. 2009**	**2009 vs. 2008**
Increase (decrease) in original currency*	**1.4%**	(9.7)%
Foreign exchange effect	**1.7**	(1.5)

Increase (decrease) as reported in U.S. dollars	**3.1%**	(11.2)%

*

Computed using a constant exchange rate for each period.

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American International Group, Inc., and Subsidiaries

Chartis Underwriting Ratios

The following table summarizes Chartis GAAP combined ratios:

Years Ended December 31,	2010	2009	Increase (Decrease)	2008	Increase (Decrease)
Loss ratio	**85.7**	78.6	7.1	71.9	6.7
Expense ratio	**31.1**	29.4	1.7	30.3	(0.9)
Combined ratio	**116.8**	108.0	8.8	102.2	5.8

The increase in the Chartis combined ratio for 2010 compared to 2009 primarily resulted from a loss ratio for accident year 2010 which was 2.5 points higher than the loss ratio for accident year 2009 recorded in 2009. The increase in the overall accident year loss ratio in 2010 is due to catastrophe-related losses of approximately $1.1 billion driven by a number of catastrophes including:

Years Ended December 31, 2010 *(in millions)*	Chartis U.S.	Chartis International	Total
Event:			
Chile earthquake	$ 28	$ 263	$ 291
Southeast U.S. floods	179	-	179
Australia floods	30	109	139
Northeast U.S. rainstorms	123	-	123
Arizona hailstorm	80	-	80
Madeira flooding	-	52	52
Other catastrophic events*	117	95	212
Total catastrophes	$ 557	$ 519	$ 1,076

* *No events individually impacted Chartis by more than $50 million.*

The 2009 year reflected catastrophe-related losses of $53 million, an unusually low amount for catastrophe claims. Excluding catastrophe-related losses, the accident year loss ratio for 2010 was 0.7 points lower than the prior year. In 2009, Chartis also recorded $412 million of losses in its Commercial Specialty line of business for its exposure to credit and fraud claims relating to the financial crisis. While no additional losses were recorded in 2010 for these credit and fraud claims, these reserves continue to be closely monitored and to date have developed in line with expectations.

Net prior year adverse loss development, net of discount and loss sensitive premium adjustments, which amounted to $4.3 billion in 2010 compared to $2.8 billion in 2009, contributed 13.2 points to the calendar year loss ratio.

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

Years Ended December 31, *(in millions)*	2010	2009	2008
Gross prior year adverse loss development	**$ 4,850**	$ 2,758	$ (39)

Increase in loss reserve discount	**(562)**	(81)	(145)
Returned/(additional) premium on loss-sensitive business	**(8)**	118	339
Net prior year adverse loss development	**$ 4,280**	$ 2,795	$ 155

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

an increase of 1.7 points in the expense ratio due to an increase in acquisition and other underwriting expenses, partially offset by an overall decline in the expense ratio due to benefits from the amortization of

net intangible liabilities relating to the acquisition of Fuji. For more details on the expenses see the Chartis U.S. and Chartis International discussions below.

The increase in the Chartis combined ratio for 2009 compared to 2008 primarily resulted from net prior year adverse loss development, which increased incurred losses by $2.8 billion in 2009 and $155 million in 2008, respectively, which accounts for an 8.7 point deterioration of the loss ratio in 2009.

For additional discussion regarding Net Prior Year Loss Development, refer to the Liability for Unpaid Claims and Claims Adjustment Expense section below.

Partially offsetting the effect of the change in prior year loss development was:

- a loss ratio for accident year 2009 recorded in 2009 which was 1.9 points lower than the loss ratio for accident year 2008 recorded in 2008. This decrease is due primarily to a decline in catastrophe losses from $1.6 billion in 2008 to $53 million in 2009, resulting in a 4.4 point decrease in the accident year loss ratio. The decrease in accident year loss ratio relating to catastrophes was partially offset by a $412 million increase in loss reserves in 2009 relating to financial fraud claims discussed above.

- a decline in the expense ratio of 0.9 points in 2009 compared to 2008, as the 2008 year reflects the effects of a $1.2 billion impairment charge for goodwill relating to its investment in HSB, which was sold in 2009.

Chartis Investing and Other Results

In 2010, net investment income for Chartis increased compared to 2009 primarily as a result of an increase in the value of partnership investments as market conditions improved. In addition, investment expenses decreased in 2010 due to 2009 expenses including the equity method losses from Fuji. In 2010, Fuji was consolidated as indicated below. Net realized capital losses for Chartis declined in 2010 compared to 2009 due to increased gains on sales of fixed maturity and equity securities and lower other-than-temporary impairments on investments as market conditions continue to improve. The bargain purchase gain in 2010 resulted from the acquisition of Fuji, and the gain on sale of divested assets is from the sale of the AIG Otemachi Building in Japan.

On March 31, 2010, AIG, through a Chartis International subsidiary, purchased additional voting shares in Fuji. This acquisition resulted in a bargain purchase gain of $0.3 billion, which was included in the Consolidated Statement of Income (Loss) in Other Income. See Note 5 to the Consolidated Financial Statements for additional information. The bargain purchase gain is primarily attributable to the depressed market value of Fuji's common stock, which AIG believes was the result of macro-economic, capital market and regulatory factors in Japan coupled with Fuji's financial condition and results of operations. AIG anticipates that the bargain purchase gain will not be subject to U.S. or foreign income tax because the gain would only be recognized for tax purposes upon the sale of the Fuji shares.

In May 2009, AIG completed the sale of its interest in the AIG Otemachi Building in Japan, including the land and development rights. Approximately 50 percent of its interest was held by Chartis International subsidiaries with the remainder held by Asset Management, which is reported in AIG's Other operations category. Although the transaction qualified as a legal sale, it did not qualify as a sale for U.S. GAAP purposes at the time of sale due to AIG's continued involvement as a lessee, primarily in the form of a lease deposit. As leases expired in December 2010 and AIG vacated the building, the gain of approximately $1.3 billion was recognized in AIG's pre-tax income, of which $669 million was included in the Chartis International results.

Net investment income for Chartis increased in 2009 compared to 2008 primarily due to improvement in returns from partnership investments of $860 million. Net realized capital losses declined in 2009 compared to 2008 due to lower other-than-temporary impairment charges on investments while 2008 included significant other-than-temporary impairment charges related to the deterioration in the fixed income markets. In addition, the adoption of the new other-than-temporary impairment accounting standard, commencing in the second quarter of 2009, resulted in fewer fixed income credit securities requiring other-than-temporary impairment.

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

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American International Group, Inc., and Subsidiaries

Chartis U.S. Results

The following table presents Chartis U.S. results:

Years Ended December 31, *(in millions)*	**2010**	**2009**	**2008**	**Percentage Increase/ (Decrease)** 2010 vs. 2009	2009 vs. 2008
Underwriting results:					
Net premiums written	**$ 17,247**	$ 18,373	$ 21,243	(6)%	(14)%
Decrease in unearned premiums	**976**	1,405	1,169	(31)	20
Net premiums earned	**18,223**	19,778	22,412	(8)	(12)
Claims and claims adjustment expenses incurred	**18,514**	17,943	18,255	3	(2)
Underwriting expenses	**4,671**	4,401	5,887	6	(25)
Underwriting loss	**(4,962)**	(2,566)	(1,730)	-	-
Net investment income	**3,458**	2,790	1,981	24	41
Net realized capital losses	**(196)**	(679)	(3,294)	-	-
Pre-tax loss	**$ (1,700)**	$ (455)	$ (3,043)	-%	-%

Chartis U.S. Underwriting Results

Chartis U.S. Net Premiums Written

The following table presents Chartis U.S. net premiums written by line of business:

Years Ended December 31, *(in millions)*	**2010**	**2009**	**2008**	**Percentage Increase/ (Decrease)** 2010 vs. 2009	2009 vs. 2008
Consumer lines:					
Accident & health	**$ 1,428**	$ 1,324	$ 1,392	8%	(5)%
Personal lines	**1,792**	1,784	1,709	-	4
Total Consumer lines	**3,220**	3,108	3,101	4	-
Commercial lines:					
Casualty	**6,141**	6,880	8,824	(11)	(22)
Property	**1,867**	2,170	2,128	(14)	2
Specialty	**6,019**	6,215	7,190	(3)	(14)
Total Commercial lines	**14,027**	15,265	18,142	(8)	(16)
	$ 17,247	$ 18,373	$ 21,243	(6)%	(14)%

Total net premiums written

Chartis U.S. net premiums written decreased in 2010 compared to 2009 primarily due to:

- risk management initiatives undertaken as part of the redefinition of its overall risk appetite resulting in the reduction of aggregate exposures in certain Commercial Casualty, Property and Specialty lines of business. Chartis U.S. is reducing its production in capital-intensive or lower margin and catastrophe-exposed businesses, including excess casualty, workers' compensation and excess workers' compensation businesses in its Commercial Casualty lines, and within its Commercial Property lines it reduced both its gross and net exposures to catastrophes through the reduction in direct writings and a more strategic use of reinsurance; and

- lower U.S. workers' compensation premiums due to declining rates, lower employment levels, increased competition and Chartis' continued strategy to remain price disciplined. These factors negatively affected both its Commercial Casualty and Specialty lines of business.

- declines in the construction, real estate and transportation classes within Commercial Casualty lines and various classes of professional liability business in the Specialty lines, which were negatively affected to a greater extent than other classes by the credit crisis. The limited availability of capital for new projects

adversely impacted general liability and commercial umbrella business in the Commercial Casualty and environmental classes in the Commercial Specialty lines of business. Additionally, 2010 reflects the effects of the Chartis U.S decision to reduce writings within its Commercial Specialty lines for certain classes of environmental coverages.

Partially offsetting these declines are increases in its Consumer lines of business as part of the Chartis U.S. strategy to increase production in less capital intensive and higher margin businesses.

Chartis U.S. net premiums written decreased in 2009 compared to 2008 primarily due to:

- declines in the Commercial Casualty lines of business due to lower U.S. workers' compensation premiums resulting from declining rates, lower employment levels, increased competition and a strategy to remain price disciplined;

- declines in the construction, real estate and transportation lines within Commercial Casualty lines, and various classes of professional liability business within the Specialty lines, which were negatively affected to a greater extent than other classes by the credit crisis. Additionally, the limited availability of capital for new projects adversely impacted the general liability and commercial umbrella businesses in its Commercial Casualty and environmental lines within the Specialty lines of business; and

- the effect of AIG's negative publicity in 2009, which adversely impacted all classes of both commercial and consumer business.

Chartis U.S. Underwriting Ratios

The following table presents Chartis U.S. GAAP combined ratios:

Years Ended December 31,	2010	2009	Increase (Decrease)	2008	Increase (Decrease)
Loss ratio	**101.6**	90.7	10.9	81.4	9.3
Expense ratio	**25.6**	22.3	3.3	26.3	(4.0)
Combined ratio	**127.2**	113.0	14.2	107.7	5.3

The increase in the Chartis U.S. combined ratio in 2010 compared to 2009 primarily resulted from the following:

- a loss ratio for accident year 2010 recorded in 2010 which was 3.2 points higher than the loss ratio for accident year 2009 recorded in 2009. The increase in the overall accident year loss ratio is due to approximately $557 million catastrophe-related losses in 2010 previously noted (compared to $53 million of catastrophe-related losses in 2009).

- net adverse prior year development, which increased Chartis U.S. incurred losses by $3.9 billion in 2010 compared to $2.8 billion of net adverse loss development in 2009.

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

	2010	2009	2008

Years Ended December 31, *(in millions)*			
Gross prior year adverse loss development	**$ 4,471**	$ 2,749	$ 23
Increase in loss reserve discount	**(515)**	(81)	(145)
Returned/(additional) premium on loss-sensitive business	**(8)**	118	339
Net prior year adverse loss development	**$ 3,948**	$ 2,786	$ 217

For additional discussion regarding net prior year loss development, refer to the Liability for Unpaid Claims and Claims Adjustment Expense section that follows.

an increase of 3.4 points in the expense ratio due to a decline in net premiums earned and increases in both acquisition and general operating expenses. Higher acquisition expenses reflect overall increases in commissions paid to brokers across most lines of businesses, increased regulatory assessments, more specifically in the workers' compensation lines, new marketing agreements with select strategic distribution partners, and direct marketing costs within its Consumer line products. The increase in General operating expenses reflect the Chartis U.S. strategy to continue the enhancement and build-out of its financial systems and related control environment. Further, as part of its plans to continue to attract, retain and develop its human capital and to better align employee performance incentive programs with profitability, capital management, risk management, and other AIG performance measures, during 2010, Chartis U.S. recorded increased expenses relating to its incentive compensation programs. During 2010, Chartis U.S. also undertook a number of cost-saving initiatives and as a result of these initiatives during the fourth quarter of 2010 recorded a $23 million charge relating to a reduction of its employee base.

The increase in the Chartis U.S. combined ratio for 2009 compared to 2008 primarily resulted from the following:

net adverse prior year development, which increased incurred losses by $2.8 billion in 2009 compared to $217 million of net adverse loss development in 2008.

For additional discussion regarding net prior year loss development, see Liability for Unpaid Claims and Claims Adjustment Expense section below.

Prior year loss development was partially offset by:

a decrease in the loss ratio for accident year 2009 recorded in 2009 which was 3.7 points lower than the loss ratio for accident year 2008 recorded in 2008 resulting from a decline in catastrophe-related losses from $1.5 billion in 2008 to $53 million in 2009. The 2008 catastrophe-related losses included Hurricanes Ike and Gustav, California wildfires, Midwest storms and floods and the Atlanta tornado.

a decline in the expense ratio of 4.0 points in 2009 compared to 2008. This decrease is due primarily to a $1.2 billion goodwill impairment charge in 2008 relating to the Chartis U.S. investment in HSB. Overall expenses, excluding the 2008 write-off of goodwill, declined $452 million, or eight percent compared to 2008 due to decreased acquisition costs, but were partially offset by increased pension and restructuring-related costs.

Chartis U.S. Investing Results

In 2010, net investment income for Chartis U.S. increased compared to 2009 primarily as a result of partnership investments returning to profitability as market conditions improved. In addition, net investment income for non-partnership investments increased in 2010 compared to 2009 due to an increase in maturing Life Settlement policies.Net realized capital losses declined in 2010 compared to 2009 due to increased sales of fixed maturity and equity securities as market conditions improved and lower other-than-temporary-impairments on investments due to improved cash flow expectations on structured securities.

Net investment income for Chartis U.S. increased in 2009 compared to 2008 primarily due to improvement in returns from partnership investments of $633 million. Net realized capital losses for Chartis U.S. declined in 2009 compared to 2008 due to lower other-than-temporary impairments on investments as 2008 results reflected significant other-than-temporary impairment charges related to the deterioration in the fixed income markets. In addition, the adoption of the new other-than-temporary impairment accounting standard, commencing in the second quarter of 2009, resulted in fewer fixed income credit securities requiring other-than-temporary impairment.

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

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American International Group, Inc., and Subsidiaries

Chartis International Results

The following table presents Chartis International results:

Years Ended December 31, *(in millions)*	**2010**	**2009**	**2008**	**Percentage Increase/(Decrease) 2010 vs. 2009**	**2009 vs. 2008**
Underwriting results:					
Net premiums written	**$ 14,365**	$ 12,280	$ 13,288	17%	(8)%
(Increase) decrease in unearned premiums	**(67)**	203	(190)	-	-
Net premiums earned	**14,298**	12,483	13,098	15	(5)
Claims and claims adjustment expenses incurred	**9,353**	7,419	7,269	26	2
Underwriting expenses	**5,443**	5,096	4,870	7	5
Underwriting profit (loss)	**(498)**	(32)	959	-	-
Investing and other results:					
Net investment income	**934**	502	586	86	(14)
Net realized capital gains (losses)	**147**	149	(990)	(1)	-
Gain on sale of properties	**669**	-	-	-	-
Bargain purchase gain	**332**	-	-	-	-
Pre-tax income	**$ 1,584**	$ 619	$ 555	156%	12%

Chartis International Underwriting Results

Chartis International Net Premiums Written

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

Years Ended December 31, *(in millions)*	**2010**	**2009**	**2008**	**Percentage Increase/(Decrease) 2010 vs. 2009**	**2009 vs. 2008**
Consumer lines:					
Accident & health	**$ 4,006**	$ 3,722	$ 3,828	8%	(3)%
Personal lines	**3,513**	2,232	2,399	57	(7)
Life insurance	**334**	-	-	-	-
Total consumer lines	**7,853**	5,954	6,227	32	(4)
Commercial lines:					
Casualty	**2,257**	2,202	2,590	2	(15)
Property	**1,423**	1,378	1,532	3	(10)
Specialty	**2,832**	2,746	2,939	3	(7)

Total commercial lines	**6,512**	6,326	7,061	3	(10)
Total net premiums written	**$ 14,365**	$ 12,280	$ 13,288	17%	(8)%

Chartis International net premiums written increased in 2010 compared to 2009 primarily due to:

the acquisition of Fuji. Beginning on July 1, 2010, Fuji's net premiums were included in Chartis International. Fuji's net premiums written were $1.8 billion in 2010, of which $1.7 billion relates to Consumer lines and $91 million relates to Commercial lines. In addition, Chartis International's Life insurance business included in Consumer lines is produced by Fuji.

increased stabilization of developed economies after the financial crisis that began in 2008. This increased stabilization resulted in an improved pricing, increased new business submissions and improved policyholder persistency in both Consumer and Commercial lines. However, the effects of the improved environment were partially offset by Chartis International's decision not to renew a credit card indemnification program within Specialty business in Commercial lines that did not meet certain profitability targets.

From a regional perspective, growth in the Far East region was driven primarily by the Fuji acquisition. The growth economy countries, with well-established franchises and operations, continue to increase insurance penetration and growth within Consumer and Commercial lines. The Europe region's net premium written levels were consistent with 2009 due to continued strong pricing discipline in a recovering soft market.

Chartis International net premiums written decreased in 2009 compared to 2008 primarily due to negative effects of changes in foreign exchange rates, general economic conditions which continued to negatively affect new business and the adverse effect of negative publicity regarding AIG in 2009.

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

Years Ended December 31,	**2010 vs. 2009**	**2009 vs. 2008**
Increase (decrease) in original currency[(a)]	**12.8%**[(b)]	(3.8)%
Foreign exchange effect	**4.2**	(3.8)
Increase (decrease) as reported in U.S. dollars	**17.0%**	(7.6)%

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

(b) *Substantially all of this increase was attributable to the Fuji acquisition.*

Chartis International Underwriting Ratios

The following table presents Chartis International combined ratios:

Years Ended December 31,	**2010**	**2009**	**Increase (Decrease)**	**2008**	**Increase (Decrease)**
Loss ratio	**65.4**	59.4	6.0	55.5	3.9
Expense ratio	**38.1**	40.8	(2.7)	37.2	3.6
Combined ratio	**103.5**	100.2	3.3	92.7	7.5

The increase in the Chartis International combined ratio in 2010 compared to 2009 primarily resulted from the following:

significant catastrophe-related losses in 2010. No catastrophe-related losses were recorded in the comparable 2009 period. The 2010 catastrophe-related losses of $520 million previously noted, including $10 million of reinstatement reinsurance premiums, increased the current accident year loss ratio by 3.3 points.

net adverse prior year loss development, which increased incurred losses by $332 million in 2010 compared to $9 million of net adverse loss development in 2009. The increase in net adverse prior year loss development increased the 2010 loss ratio by 2.7 points.

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

Years Ended December 31, ***(in millions)***	**2010**	2009	2008
Gross prior year adverse loss development	**$ 379**	$ 9	$ (62)
Increase in loss reserve discount	**(47)**	-	-
Returned/(additional) premium on loss-sensitive business	**-**	-	-
Net prior year adverse loss development	**$ 332**	$ 9	$ (62)

For a detailed discussion of Net Loss Development by class of business, see Liability for Unpaid Claims and Claim Adjustment Expense below.

a decrease of 2.7 points in the expense ratio resulting from the net benefits of the amortization of net intangible liabilities relating to the acquisition of Fuji. Excluding Fuji, the 2010 expense ratio was essentially

unchanged compared to the prior year. Increases in underwriting expenses were offset by decreases in acquisition costs. The increase in other underwriting expenses in 2010 resulted primarily from the impairment of intangible assets within the Far East region, Consumer lines business (unrelated to the Fuji operations), and costs associated with separation activities from certain AIG divested entities. In addition, other underwriting expenses in 2010 include the cost of enhancements to financial systems and related control environment as well as expenses relating to long-term incentive programs that will continue to align employee performance incentive programs with profitability, capital management, risk management and compliance objectives. The decrease in acquisition costs in 2010 is primarily due to the credit card indemnification program in Commercial Specialty, discussed above, which carried a high commission ratio.

The increase in the Chartis International combined ratio for 2009 compared to 2008 primarily resulted from the following:

- a loss ratio for accident year 2009 recorded in 2009 which was 3.4 points higher than the loss ratio for accident year 2008 recorded in 2008. The increase in the overall accident year loss ratio was due primarily to increases relating to Commercial Specialty financial lines claims of $412 million arising from the disruption in the financial markets as well as financial frauds. Partially offsetting these increases were the year-over-year effects of catastrophe-related losses. No catastrophe-related losses were recorded in 2009, while 2008 was affected by natural catastrophes of $143 million including Hurricanes Gustav and Ike.

- an increase in the expense ratio in 2009 compared to 2008 due to a decrease in net premiums earned and an increase in general operating expenses. The increase in general operating expenses relates to separation and restructuring charges, certain costs associated with bad debt-related expenses, and increased pension costs.

Chartis International Investing and Other Results

Chartis International net investment income increased in 2010 compared to 2009 primarily due to higher returns from partnership investments, dividends earned, and other investment income which were partially offset by lower mutual fund and interest income. Investment expense was also lower in 2010 as 2009 expenses included the equity method losses from Fuji. In 2010, Fuji was consolidated as described below.

Chartis International net realized capital gains in 2010 were essentially unchanged from the prior year. On March 31, 2010, AIG, through a Chartis International subsidiary, purchased additional voting shares in Fuji. The acquisition of the additional voting shares resulted in Chartis International obtaining control of Fuji. This acquisition resulted in a bargain purchase gain of approximately $332 million, which is included in the Consolidated Statement of Income (Loss) in Other Income. See Note 5 to the Consolidated Financial Statements for a complete discussion. The bargain purchase gain is primarily attributable to the depressed market value of Fuji's common stock, which AIG believes is the result of macro-economic, capital market and regulatory factors in Japan coupled with Fuji's financial condition and results of operations. AIG anticipates that the bargain purchase gain will not be subject to U.S. or foreign income tax because the gain would only be recognized for tax purposes upon the sale of the Fuji shares.

In May 2009, AIG completed the sale of its interest in the AIG Otemachi Building in Japan, including the land and development rights. Approximately 60 percent of these interests were held by Chartis International subsidiaries with the remainder held by Asset Management and reported in AIG's Other operations category. Although the transaction qualified as a legal sale, it did not qualify as a sale for U.S. GAAP purposes at the time of sale due to AIG's continued involvement as a lessee, primarily in the form of a lease deposit. As leases expired in December 2010 and AIG vacated the building, a pre-tax gain of approximately $1.3 billion was recognized in AIG's consolidated results, of which $669 million was included in the Chartis International results.

Chartis International Net investment income decreased in 2009 compared to 2008 primarily due to losses from an equity method investment, and lower yields on the fixed income portfolios, partially offset by improving mutual fund income due to improved market conditions.

Chartis International recorded Net realized capital gains in 2009 compared to net realized capital losses in 2008 due to the reduced number of fixed income credit securities requiring other-than-temporary impairments. The reduced number of securities was the result of adoption of the new other-than-temporary impairment accounting standard, commencing in the second quarter of 2009.

Liability for Unpaid Claims and Claims Adjustment Expense

The following discussion of the consolidated liability for unpaid claims and claims adjustment expenses (loss reserves) presents loss reserves for the Chartis U.S. and Chartis International reporting units in the Chartis operating segment and loss reserves pertaining to divested and/or Divested businesses and those of the Mortgage Guaranty reporting unit collectively reported in AIG's Other operations category.

The following table presents the components of the loss reserves by major lines of business on a statutory annual statement basis*[(a)]*:

At December 31, *(in millions)*	**2010**	2009
Other liability occurrence	**$ 23,583**	$ 20,344
Workers' compensation	**17,683**	15,200
International[(b)]	**16,583**	12,582
Other liability claims made	**11,446**	12,619
Mortgage Guaranty/Credit	**4,220**	5,477
Property	**3,846**	3,872
Auto liability	**3,337**	4,164
Products liability	**2,377**	2,414
Medical malpractice	**1,754**	1,672
Accident and health	**1,444**	1,677
Aircraft	**1,149**	1,388
Commercial multiple peril	**1,006**	1,081
Fidelity/surety	**934**	875
Reinsurance	**130**	154
Other	**1,659**	1,867
Total	**$ 91,151**	$ 85,386

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

(b) *Includes $2.3 billion related to the acquisition of Fuji on March 31, 2010.*

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

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

The following table classifies the components of the net liability for unpaid claims and claims adjustment expense by business unit:

Years Ended December 31, *(in millions)*	2010	2009
Chartis:		
Chartis U.S.	**$ 53,111**	$ 50,498
Chartis International	**14,963**	12,688
Total Chartis	**68,074**	63,186
Mortgage Guaranty	**3,433**	4,713
Net liability for unpaid claims and claims adjustment expense at end of year	**$ 71,507**	$ 67,899

Discounting of Reserves

At December 31, 2010, net loss reserves reflect a loss reserve discount of $3.22 billion, including tabular and non-tabular calculations. The tabular workers' compensation discount is calculated using a 3.5 percent interest rate and the 1979 - 81 Decennial Mortality Table. The non-tabular workers' compensation discount is calculated separately for companies domiciled in New York and Pennsylvania, and follows the statutory regulations for each state. For New York companies, the discount is based on a five percent interest rate and the companies' own payout patterns. For Pennsylvania companies, the statute has specified discount factors for accident years 2001 and prior, which are based on a six percent interest rate and an industry payout pattern. For accident years 2002 and subsequent, the discount is based on the payout patterns and investment yields of the companies. Those asbestos liabilities that are fixed and determinable are discounted based on investment yields. The discount is comprised of the following: $790 million tabular discount for workers' compensation in Chartis U.S. and $2.27 billion non-tabular discount for workers' compensation in Chartis U.S.; and $162 million non-tabular discount for asbestos for Chartis.

Results of the Reserving Process

AIG believes that its net loss reserves are adequate to cover net losses and loss expenses as of December 31, 2010. While AIG regularly reviews the adequacy of established loss reserves, there can be no assurance that AIG's ultimate loss reserves will not develop adversely and materially exceed AIG's loss reserves as of December 31, 2010. In the opinion of management, such adverse development and resulting increase in reserves is not likely to have a material adverse effect on AIG's consolidated financial condition, although it could have a material adverse effect on AIG's consolidated results of operations for an individual reporting period. See Item 1A. Risk Factors Casualty Insurance Underwriting and Reserves.

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American International Group, Inc., and Subsidiaries

The following table presents the rollforward of net loss reserves:

Years Ended December 31, ***(in millions)***	**2010**	**2009**	**2008**
Net liability for unpaid claims and claims adjustment expense at beginning of year	**$ 67,899**	$ 72,455	$ 69,288
Foreign exchange effect	**(126)**	1,416	(2,113)
Acquisitions[(a)]	**1,538**	-	-
Dispositions[(b)]	**(87)**	(9,657)	(269)
Losses and loss expenses incurred[(c)]:			
Current year	**24,074**	27,354	34,516
Prior years, other than accretion of discount	**4,182**	2,771	118
Prior years, accretion of discount	**(181)**	313	317
Losses and loss expenses incurred	**28,075**	30,438	34,951
Losses and loss expenses paid[(c)]:			
Current year	**9,873**	11,079	13,204
Prior years	**15,919**	15,673	16,240
Losses and loss expenses paid	**25,792**	26,752	29,444
Activity of discontinued operations	**-**	(1)	42
Net liability for unpaid claims and claims adjustment expense at end of year	**$ 71,507**	$ 67,899	$ 72,455

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

(b) *Transatlantic was deconsolidated during the second quarter of 2009, 21st Century was sold in the third quarter of 2009, HSB was sold during the first quarter of 2009 and Unibanco was sold in the fourth quarter of 2008.*

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

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

Years Ended December 31, ***(in millions)***	**2010**	**2009**	**2008**
Prior Accident Year Development by Reporting Unit:			
Chartis segment:			
Chartis U.S.	**$ 4,471**	$ 2,749	$ 23

Chartis International	**379**	9	(62)
Total Chartis segment	**4,850**	2,758	(39)
Other businesses:			
Mortgage Guaranty	**(668)**	38	177
Other businesses*	**-**	(25)	17
Total Other businesses	**(668)**	13	194
Asbestos settlements	**-**	-	(37)
Prior years, other than accretion of discount	**$ 4,182**	$ 2,771	$ 118

*

Includes Transatlantic which was deconsolidated during the second quarter of 2009, 21st Century was sold in the third quarter of 2009 and HSB was sold during the first quarter of 2009.

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American International Group, Inc., and Subsidiaries

Years Ended December 31, *(in millions)*	**2010**	**2009**	**2008**
Prior Accident Year Development by Major Class of Business:			
Excess casualty (Chartis U.S.)	**$ 1,071**	$ 1,507	$ 1,105
D&O and related management liability (Chartis U.S.)	**(94)**	(39)	(430)
Excess workers' compensation (Chartis U.S.)	**793**	956	(12)
Healthcare (Chartis U.S.)	**(75)**	(92)	(310)
Asbestos and environmental (primarily Chartis U.S.)	**1,503**	155	51
Primary (Specialty) Workers' Compensation	**518**	37	125
All other, net	**466**	247	(411)
Prior years, other than accretion of discount	**$ 4,182**	$ 2,771	$ 118

Years Ended December 31, *(in millions)*	**2010**	**Calendar Year** **2009**	**2008**
Prior Accident Year Development by Accident Year:			
Accident Year			
2009	**$ (61)**		
2008	**286**	$ 289	
2007	**528**	(57)	$ (370)
2006	**199**	(91)	(590)
2005	**113**	18	(455)
2004	**134**	182	(335)
2003	**73**	73	200
2002	**97**	126	176
2001	**73**	316	238
2000 and prior	**2,740**	1,915	1,254
Prior years, other than accretion of discount	**$ 4,182**	$ 2,771	$ 118

In determining the loss development from prior accident years, AIG conducts analyses to determine the change in estimated ultimate loss for each accident year for each class of business. For example, if loss emergence for a class of business is different than expected for certain accident years, the actuaries examine the indicated effect such emergence would have on the reserves of that class of business. In some cases, the higher or lower than expected emergence may result in no clear change in the ultimate loss estimate for the accident years in question, and no adjustment would be made to the reserves for the class of business for prior accident years. In other cases, the higher or lower than expected emergence may result in a larger change, either favorable or unfavorable, than the difference between the actual and expected loss emergence. Such additional analyses were conducted for each class of business, as appropriate, in 2010 to determine the loss development from prior accident years for 2010. As part of its reserving process, AIG also considers notices of claims received with respect to emerging issues, such as those related to the U.S. mortgage and housing market.

Net Loss Development by Class of Business

The following is a discussion of the primary reasons for the development in 2010, 2009 and 2008 for those classes of business that experienced significant prior accident year developments during the three-year period. See Asbestos and Environmental Reserves below for a further discussion of asbestos and environmental reserves and development.

Excess Casualty: Excess Casualty reserves experienced significant adverse loss development in 2010, 2009 and 2008. The increase in loss costs driving this development resulted primarily from medical inflation, which increased the economic loss component of tort claims; advances in medical care, which extended the life span of severely injured claimants; and larger jury verdicts, which increased the value of severe tort claims. An additional factor affecting AIG's excess casualty experience in 2008 and 2009 has been the exhaustion of underlying primary policies for products liability coverage and for homebuilders. This has led to increased loss emergence relating to claims involving exhaustion of underlying product aggregates and increased construction defect-related claims

activity on AIG's excess and umbrella policies. Many excess casualty policies were written on a multi-year basis in the late 1990s, which limited AIG's ability to respond to emerging market trends as rapidly as would otherwise be the case. In subsequent years, AIG responded to these emerging trends by increasing rates and implementing numerous policy form and coverage changes. This led to a significant improvement in experience beginning with accident year 2001. In 2008, a significant portion of the adverse development from accident years 2002 and prior also related to latent exposures, including pharmaceutical exposures as well as the construction defect and product aggregate related exposures noted above. AIG's exposure to these latent exposures was sharply reduced after 2002 due to significant changes in policy terms and conditions as well as underwriting guidelines. Another contributor to the adverse development during 2008 and 2009 is that actual loss development for other large losses for accident years 1998 and subsequent have emerged at higher than expected levels as compared to the loss emergence pattern exhibited from earlier accident years. This has caused significant additional development for accident years 1998 to 2002 and to a lesser extent for accident years 2003 to 2006. In 2009 the vast majority of the prior accident year development was attributable to loss emergence that significantly exceeded the historical average for this class of business.

AIG increased its estimate for its year-end 2009 loss reserve for excess casualty liabilities by more than $1 billion, primarily relating to accident years 2006 and prior. The majority of the 2009 charge resulted from management's decision to place greater reliance on the experience of the five most recent calendar years, resulting in significantly higher loss development factor assumptions for the year-end 2009 loss reserve review.

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

In determining the appropriate reserve estimate, in addition to the adverse claim emergence during late 2010, management considered the continued exposure to latent product liability claim emergence for this long tail class and the continued uncertainty of the expected loss ratios during the soft market conditions that prevailed in recent accident years. At December 31, 2010, the calculation of AIG's loss development factor assumptions was based on giving much greater weight to the latest three calendar years of loss development experience. This change from basing the loss development factor assumptions on the last five years provides still greater recognition of the recent calendar-year experience than the assumptions used in the 2009 loss reserve review, and in management's judgment was warranted based on the developing trends described above. Approximately $80 million of the reserve strengthening in the fourth quarter of 2010 pertained to accident year 2009, whereas approximately $200 million was attributable to accident year 2008, $340 million to accident year 2007, $195 million to accident year 2006, $100 million to accident years 1999 and prior, and approximately $95 million in the aggregate to accident years 2000 through 2005.

For the year-end 2009 loss reserve review, in response to significantly higher than expected loss emergence, AIG reviewed the indicated reserves for excess casualty under a variety of loss development assumptions. These assumptions ranged from long term loss development averages, which utilized all or nearly all of the historical data for this class, to short term averages which utilized only the latest three to five calendar years of loss development experience. AIG gave greater recognition to the recent calendar year experience, resulting in significantly higher loss development factor assumptions for the year-end 2009 loss reserve review. This change in

loss development assumptions increased the excess casualty reserves by approximately $815 million for accident years 2006 and prior. Additionally, in conjunction with the selection of higher loss development factors described above, AIG assigned greater credibility to the emerging loss development factors for product aggregate-related claims, which are reviewed separately. This resulted in an increase of approximately $195 million in reserves, primarily for accident years 2000 and prior. In the 2008 review of the product aggregate-related loss development, only partial credibility had been given to the emerging loss development experience for product aggregate-related claims. Finally, AIG claims staff updated its review of accounts with significant exposure to construction defect-related claims. This resulted in an increase of approximately $65 million.

For the year-end 2008 loss reserve review, AIG claims staff updated its review of accounts with significant exposure to construction defect-related claims. In response to the continued upward developments on these claims, and based on an updated analysis of this development, AIG increased the reserves by an additional $75 million beyond the increases identified in the claims review. In response to the continued adverse development of product aggregate related claims during 2007 and 2008, AIG's actuaries conducted a special analysis of product aggregate-related claims development, resulting in an increase in the IBNR reserve for this exposure of $175 million. In response to the high level of pharmaceutical-related claim emergence during 2007 and 2008, AIG claims staff reviewed the remaining exposure, and based on this review an additional reserve of $10 million was established. In response to the much greater than expected actual loss emergence for other large losses for accident years 1998 and subsequent during 2007 and 2008, AIG's actuaries increased the loss development factor assumptions for this business, resulting in a further increase of approximately $200 million in loss reserves for this class. In total, the specific increases in reserves related to these items increased the excess casualty reserves by approximately $460 million during 2008. During 2008, AIG also recognized approximately $200 million of losses relating to MTBE, a gasoline additive, which primarily related to excess casualty business from accident years 2000 and prior.

Loss reserves pertaining to the excess casualty class of business are generally included in the other liability occurrence line of business, with a small portion of the excess casualty reserves included in the other liability claims made line of business, as presented in the loss reserves by major lines of business table above.

Excess Workers' Compensation: AIG experienced significant adverse development for this class during 2010 and 2009, following a year of immaterial development in 2008. This class of business has an extremely long tail and is one of the most challenging classes of business to reserve for because it is highly sensitive to small changes in assumptions in the rate of medical inflation or the longevity of injured workers, for example which can have a significant effect on the ultimate reserve estimate. Furthermore claims estimates for this line are highly sensitive to:

- The assumed future rate of inflation and other economic conditions in the United States;
- Changes in the legal, regulatory, judicial and social environment;
- The expected impact of recently enacted health care reform on workers' compensation costs;
- Underlying policy pricing, terms and conditions;
- Claims settlement trends that can materially alter the mix and ultimate cost of claims;
- Changes in claims reporting practices of insureds and third-party administrators;
- The cost of new and additional treatment specialties, such as "pain management";

Changes in injured worker longevity; and

Territorial experience differences (across states and within regions in a state).

With the passage of the Affordable Care Act in March 2010, management concluded that there is increased vulnerability to the risk of further cost-shifting to the excess workers' compensation class of business in particular. Settlement efforts can also be affected by changes to evaluation protocols implemented by the Centers for

Medicare & Medicaid Services in 2009, which are expected to result in future prescription drug costs being borne by workers' compensation insurers to a significantly greater degree than in the past and thus likely to lead to further deteriorating trends for the excess workers' compensation class of business.

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

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

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

For the year-end 2009 loss reserve review, AIG increased the loss development assumptions for this class of business, resulting in approximately a $925 million increase in reserves. The increased loss development assumptions were based on an additional actuarial study performed by AIG in response to the emergence of losses in accident years 1999 and prior. This study analyzed the development patterns emanating from the AIG claims staff projections of expected ultimate cost for each open claim. No significant changes in assumptions were made in the year-end 2008 loss reserve reviews.

D&O and Related Management Liability Classes of Business: AIG experienced a significant favorable development during 2008, but only a relatively minor amount of favorable development in 2009 and 2010. The favorable development over the three-year period related primarily to accident years 2004 and 2005, and to a lesser extent accident years 2003 and 2006. Loss cost trends for D&O and related management liability classes of business were adverse in accident years 2002 and prior due to a variety of factors, including an increase in frequency and severity of corporate bankruptcies; the increase in the frequency of financial restatements; the sharp rise in market capitalization of publicly traded companies; and the increase in the number of initial public offerings. The 2003 through 2006 period was marked by a significant reduction in claims related to these factors; thus the expected loss ratios initially established for these accident years have developed favorably, particularly for 2004 and 2005. Beginning in accident year 2007, claims relating to the credit crisis resulted in increased overall claim activity. AIG utilizes ground-up claims projections by AIG claims staff as a benchmark to select the loss reserves for this business; these projections are updated annually.

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

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

For the year-end 2008 loss reserve review, AIG's actuaries took into account the favorable loss emergence for accident years 2006 and prior. They determined that, in order to respond to the significant favorable loss emergence during 2007 and 2008, greater weight should be applied to the improving loss experience for accident years 2006 and prior. Loss reserve selections therefore gave increased weight to the improved experience and less weight to the ground-up claim projections for these accident years, as the experience has continued to improve relative to the claim benchmark that was originally established for these accident years. For accident year 2007, the claim projections include claims relating to the credit crisis. The recognition of these projections resulted in a significant increase in loss reserves for some D&O subclasses. However this was partially offset by favorable loss development for other subclasses that were significantly less affected by the credit crisis. The overall development for accident year 2007 was thus only a modest increase in loss reserves. The reserves established for accident year 2008 reflect AIG's expectation of increased claim activity relating to the credit crisis. Given the uncertainty of the ultimate development from claims relating to the credit crisis in accident years 2007 and 2008, there is a greater than normal potential variation in the loss ratios for these accident years. The increased responsiveness to the improving loss trends for accident years 2006 and prior resulted in approximately $225 million of favorable loss development in the fourth quarter of 2008 for this business, primarily in accident years 2004 and 2005.

Loss reserves pertaining to D&O and related management liability classes of business are included in the other liability claims made line of business, as presented in the loss reserves by major lines of business table above.

Healthcare: Healthcare business written by Chartis U.S. produced moderate favorable development in 2010 and 2009 and significant favorable development in 2008. Healthcare loss reserves have benefited from favorable market conditions and an improved legal environment in accident years 2002 and subsequent, following a period of adverse loss trends and market conditions that began in the mid 1990's. For the year-end 2008 loss reserve review, AIG's actuaries responded to the consistently favorable experience observed during the latest three years by utilizing more responsive assumptions relating to loss development factors, loss trend factors, and expected loss ratios for this business. These modified assumptions resulted in approximately $140 million of additional favorable development that was recognized in the fourth quarter of 2008 for this business. No significant changes in assumptions were made for the year-end 2009 or 2010 loss reserve review.

Primary (Specialty) Workers' Compensation: AIG's Primary (Specialty) Workers' Compensation business unit grew significantly in the early to mid 2000's but has reduced its premium writings by nearly 70 percent since 2007. During 2010, losses for accident years 2007 through 2009 continued to emerge at higher levels than anticipated by the expected loss ratios originally established for these accident years. A total of $96 million of adverse loss development was recorded for specialty workers' compensation in the first three quarters of 2010, consisting of $15 million, $38 million and $43 million in the first through third quarters, respectively. Significant improvements in claims handling, which had the effect of accelerating claims recognition (without increasing overall loss costs), were believed to be the cause of the earlier emergence of claims during this period. However, the adverse loss emergence during 2010, including in the fourth quarter, led AIG to conclude that the worsening experience was attributable to a credible upward trend in the emergence of losses, rather than claims handling. Reasons for the worsening experience include the persistently high rates of unemployment observed in 2010, which diminish the opportunities of employers to offer "light duty" return-to-work mitigation, and evidence of pain management

strategies. In addition, a projected shift in losses over time from indemnity to medical claims, which AIG has observed in California and expects to experience in other markets, is expected to result in worsening claims experience. AIG's conclusion that the worsening experience necessitated a strengthening of the reserves was confirmed by an independent third-party actuarial review during the fourth quarter of 2010. Approximately 75 percent of the year-end 2010 reserve strengthening for this business pertained to accident years 2007 through 2009.

Construction and Commercial Risk Management: The construction and commercial risk management businesses consist of a combination of primary workers' compensation, general liability and commercial automobile coverages. The experience in the excess workers' compensation class discussed under Excess Workers' Compensation above that led to a fourth quarter 2010 change in estimate also significantly affected these classes. Adverse loss development of $109 million was recognized for the construction and commercial risk management businesses during the first nine months of 2010. Although significant improvements in claims handling were believed to be a cause of the earlier emergence of claims during this period, as with excess workers' compensation, the adverse loss emergence during 2010, including in the fourth quarter, led AIG to conclude that the worsening experience now represented a credible trend. AIG's conclusion that the worsening experience with respect to the construction risk management business necessitated a strengthening of the reserves was confirmed by a third-party actuarial review during the fourth quarter of 2010. Construction risk management represented approximately $250 million of the fourth quarter increase in estimated loss reserves.

National Accounts Loss-Sensitive Portfolio: Loss-sensitive business refers to policies whose premiums vary with the level of losses incurred; such premiums are referred to by AIG as loss-cost premiums. In 2009 and prior years, the method for establishing loss reserve balances was to match loss-cost premiums for this class against paid losses, consistent with the underlying loss-sensitive contracts. In 2010, system enhancements allowed for a more granular view of data and transactions, leading to the use of alternative reserving methods. These alternative methods led to the decision to increase estimated loss reserves by approximately $400 million in the fourth quarter of 2010.

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

Overview of Loss Reserving Process

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

Short-Tail Reserves

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

Long-Tail Reserves

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

expenses and an even smaller percentage would be net losses paid. Therefore, IBNR would constitute a relatively high proportion of net losses.

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

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

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

- Expected loss ratios for the latest accident year (i.e., accident year 2010 for the year-end 2010 loss reserve analysis) and, in some cases for accident years prior to the latest accident year. The expected loss ratio generally reflects the projected loss ratio from prior accident years, adjusted for the loss trend (see above) and the effect of rate changes and other quantifiable factors on the loss ratio. For low-frequency, high-severity classes such as excess casualty, expected loss ratios generally are used for at least the three most recent accident years.

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

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

Details of the Loss Reserving Process

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

A comprehensive annual loss reserve review is conducted in the fourth quarter of each year for each Chartis subsidiary. These detailed reviews are conducted for each class of business for each subsidiary, and thus consist of hundreds of individual analyses. The purpose of these reviews is to confirm the appropriateness of the reserves carried by each of the individual subsidiaries, and therefore of AIG's overall carried reserves. The reserve analysis for each class of business is performed by the actuarial personnel who are most familiar with that class of business. In completing these detailed actuarial reserve analyses, the actuaries are required to make numerous assumptions, including the selection of loss development factors and loss cost trend factors. They are also required to determine and select the most appropriate actuarial methods to employ for each business class. Additionally, they must determine the appropriate segmentation of data from which the adequacy of the reserves can be most accurately tested. In the course of these detailed reserve reviews an actuarial central estimate of the loss reserve is determined. The sum of these central estimates for each class of business for each subsidiary provides an overall actuarial central estimate of the loss reserve for that subsidiary. The ultimate process by which the actual carried reserves are determined considers both the internal actuarial central estimate and numerous other internal and external factors including a qualitative assessment of inflation and other economic conditions in the United States and abroad, changes in the legal, regulatory, judicial and social environment, underlying policy pricing, terms and conditions, and claims handling, as well as third-party actuarial reviews that are periodically performed for key classes of business. Loss reserve development can also be affected by commutations of assumed and ceded reinsurance agreements.

Actuarial Methods for Major Classes of Business

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

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

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

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

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

business such as personal auto. AIG also utilizes these methods in pricing subclasses of professional liability. However, AIG does not generally utilize frequency/severity methods to test loss reserves, due to the general nature of AIG's reserves being applicable to lower frequency, higher severity commercial classes of business where average claim severity is volatile.

Excess Casualty: AIG generally uses a combination of loss development methods and expected loss ratio methods for excess casualty classes. Expected loss ratio methods are generally utilized for at least the three latest accident years, due to the relatively low credibility of the reported losses. The loss experience is generally reviewed separately for lead umbrella classes and for other excess classes, due to the relatively shorter tail for lead umbrella business. Automobile-related claims are generally reviewed separately from non-auto claims, due to the shorter-tail nature of the automobile-related claims. Claims relating to certain latent exposures such as construction defects or exhaustion of underlying product aggregate limits are reviewed separately due to the unique emergence patterns of losses relating to these claims. The expected loss ratios utilized for recent accident years are based on the projected ultimate loss ratios of prior years, adjusted for rate changes, estimated loss cost trends and all other changes that can be quantified. The estimated loss cost trend utilized in the year-end 2010 reviews averaged approximately five percent for excess casualty classes. Frequency/severity methods are generally not utilized as the vast majority of reported claims do not result in a claim payment. In addition, the average severity varies significantly from accident year to accident year due to large losses which characterize this class of business, as well as changing proportions of claims which do not result in a claim payment.

D&O: AIG generally utilizes a combination of loss development methods and expected loss ratio methods for D&O and related management liability classes of business. Expected loss ratio methods are given more weight in the two most recent accident years, whereas loss development methods are given more weight in more mature accident years. In addition to these traditional actuarial methods, AIG's actuaries utilize ground-up claim projections provided by AIG claims staff as a benchmark for determining the indicated ultimate losses for all accident years other than the most recent accident year. For the year-end 2010 loss reserve review, claims projections for accident years 2009 and prior were utilized. These classes of business reflect claims made coverage, and losses are characterized by low frequency and high severity. Thus, the claim projections can produce an overall indicator of the ultimate loss exposure for these classes by identifying and estimating all large losses. Frequency/severity methods are generally not utilized for these classes as the overall losses are driven by large losses more than by claim frequency. Severity trends have varied significantly from accident year to accident year.

Workers' Compensation: AIG generally utilizes loss development methods for all but the most recent accident year. Expected loss ratio methods generally are given significant weight only in the most recent accident year. Workers' compensation claims are generally characterized by high frequency, low severity, and relatively consistent loss development from one accident year to the next. AIG is a leading writer of workers' compensation, and thus has sufficient volume of claims experience to utilize development methods. AIG does not believe frequency/severity methods are as appropriate, due to volume changes in AIG's workers' compensation business over the years. AIG generally segregates California business from other business in evaluating workers' compensation reserves. Certain classes of workers' compensation, such as construction, are also evaluated separately. Additionally, AIG writes a number of very large accounts which include workers' compensation coverage. These accounts are generally priced by AIG actuaries, and to the extent appropriate, the indicated losses based on the pricing analysis may be utilized to record the initial estimated loss reserves for these accounts.

Excess Workers' Compensation: AIG generally utilizes a combination of loss development methods and expected loss ratio methods. Loss development methods are given the greater weight for mature accident years such as 2003 and prior. Expected loss ratio methods are given the greater weight for the more recent accident years. Excess workers' compensation is an extremely long-tail class of business, with loss emergence extending for decades. Therefore there is limited credibility in the reported losses for many of the more recent accident years. For the mature accident years, AIG's actuaries utilize claims projections provided by AIG claims staff to help determine the loss development factors for this class of business.

General Liability: AIG generally uses a combination of loss development methods and expected loss ratio methods for primary general liability or products liability classes. For certain classes of business with sufficient loss volume, loss development methods may be given significant weight for all but the most recent one or two accident years, whereas for smaller or more volatile classes of business, loss development methods may be given limited weight for the five or more most recent accident years. Expected loss ratio methods would be utilized for the more recent accident years for these classes. The loss experience for primary general liability business is generally reviewed at a level that is believed to provide the most appropriate data for reserve analysis. For example, primary claims made business is generally segregated from business written on an occurrence policy form. Additionally, certain subclasses, such as construction, are generally reviewed separately from business in other subclasses. Due to the fairly long-tail nature of general liability business, and the many subclasses that are reviewed individually, there is less credibility in the reported losses and increased reliance on expected loss ratio methods. AIG's actuaries generally do not utilize frequency/severity methods to test reserves for this business, due to significant changes and growth in AIG's general liability and products liability business over the years.

Commercial Automobile Liability: AIG generally utilizes loss development methods for all but the most recent accident year for commercial automobile classes of business. Expected loss ratio methods are generally given significant weight only in the most recent accident year. Frequency/severity methods are generally not utilized due to significant changes and growth in this business over the years.

Healthcare: AIG generally uses a combination of loss development methods and expected loss ratio methods for healthcare classes of business. The largest component of the healthcare business consists of coverage written for hospitals and other healthcare facilities. Reserves for excess coverage are tested separately from those for primary coverage. For primary coverages, loss development methods are generally given the majority of the weight for all but the latest three accident years, and are given some weight for all years other than the latest accident year. For excess coverages, expected loss methods are generally given all the weight for the latest three accident years, and are also given considerable weight for accident years prior to the latest three years. For other classes of healthcare coverage, an analogous weighting between loss development and expected loss ratio methods is utilized. The weights assigned to each method are those which are believed to result in the best combination of responsiveness and stability. Frequency/severity methods are sometimes utilized for pricing certain healthcare accounts or business. However, in testing loss reserves the business is generally combined into larger groupings to enhance the credibility of the loss experience. The frequency/severity methods that are applicable in pricing may not be appropriate for reserve testing and thus frequency/severity methods are not generally employed in AIG's healthcare reserve analyses.

Professional Liability: AIG generally uses a combination of loss development methods and expected loss ratio methods for professional liability classes of business. Loss development methods are used for the more mature accident years. Greater weight is given to expected loss ratio methods in the more recent accident years. Reserves are tested separately for claims made classes and classes written on occurrence policy forms. Further segmentations are made in a manner believed to provide an appropriate balance between credibility and homogeneity of the data. Frequency/severity methods are used in pricing and profitability analyses for some classes of professional liability; however, for loss reserve testing, the need to enhance credibility generally results in classes that are not sufficiently homogenous to utilize frequency/severity methods.

Catastrophic Casualty: AIG utilizes expected loss ratio methods for all accident years for catastrophic casualty business. This class of business consists of casualty or financial lines coverage which attaches in excess of very high attachment points; thus the claims experience is marked by very low frequency and high severity. Because of the limited number of claims, loss development methods are not utilized. The expected loss ratios and loss development assumptions utilized are based upon the results of prior accident years for this business as well as for similar classes of business written above lower attachment points. The business is generally written on a claims made basis. AIG utilizes ground-up claim projections provided by AIG claims staff to assist in developing the appropriate reserve.

Aviation: AIG generally uses a combination of loss development methods and expected loss ratio methods for aviation exposures. Aviation claims are not very long-tail in nature; however, they are driven by claim severity. Thus a combination of both development and expected loss ratio methods are used for all but the latest accident year to determine the loss reserves. Expected loss ratio methods are used to determine the loss reserves for the latest accident year. Frequency/severity methods are not employed due to the high severity nature of the claims and different mix of claims from year to year.

Personal Auto (Domestic): AIG generally utilizes frequency/severity methods and loss development methods for domestic personal auto classes. For many classes of business, greater reliance is placed on frequency/severity methods as claim counts emerge quickly for personal auto and allow for more immediate analysis of resulting loss trends and comparisons to industry and other diagnostic metrics.

Fidelity/Surety: AIG generally uses loss development methods for fidelity exposures for all but the latest accident year. Expected loss ratio methods are also given weight for the more recent accident years, and for the latest accident year they may be given 100 percent weight. For surety exposures, AIG generally uses the same method as for short-tail classes.

Mortgage Guaranty: AIG tests mortgage guaranty reserves using loss development methods, supplemented by an internal claim analysis by actuaries and staff who specialize in the mortgage guaranty business. The claim analysis projects ultimate losses for claims within each of several categories of delinquency based on actual historical experience and is essentially a frequency/severity analysis for each category of delinquency. Additional reserve tests are also employed, such as tests measuring losses as a percent of risk in force. Reserves are reviewed separately for each class of business to consider the loss development characteristics associated with the claims, the volume of claim data available for the applicable class and the applicability of various actuarial methods to the class.

Estimates for mortgage guaranty insurance losses and loss adjustment expense reserves are based on notices of mortgage loan delinquencies and estimates of delinquencies that have been incurred but have not been reported by loan servicers, based upon historical reporting trends. Mortgage Guaranty establishes reserves using a percentage of the contractual liability (for each delinquent loan reported) that is based upon past experience regarding certain loan factors such as age of the delinquency, cure rates, dollar amount of the loan and type of mortgage loan. Mortgage Guaranty losses and loss adjustment expenses have been adversely affected by macroeconomic events, such as declining home prices and increasing unemployment, among other events, related to the turmoil in the financial markets. As these macroeconomic events change, adversely or favorably, the determination of the ultimate losses and loss adjustment expenses requires a high degree of judgment. Responding to these adverse macroeconomic influences, numerous government and lender loan modification programs have been implemented to mitigate mortgage losses. The loan modification programs have produced additional cures of delinquent loans in 2010 that may not continue in 2011 as some modification programs are phased out or retired. In addition, these loan modifications may re-default resulting in new losses for Mortgage Guaranty.

Increased occurrences of fraudulent loans, underwriting violations, and other deviations from contractual terms mostly related to the 2006 and 2007 blocks of business have resulted in an increase in claim rescissions and denials (collectively referred to as rescissions) during 2010. As a result, in the latter half of 2010 many lenders increased their rescission appeals activity as well as the success rate on those appeals by focusing additional resources on the process. The increased lender attention on tracking down missing loan documents along with the heightened focus on appeals of rescissions caused the estimated ultimate rescission rate net of appeals in the loss reserves to be lower than the rescission level experienced in the first half of 2010. AIG believes it has provided appropriate reserves for currently delinquent loans, consistent with industry practices.

Short-Tail Classes: AIG generally uses either loss development methods or IBNR factor methods to set reserves for short-tail classes such as property coverages. Where a factor is used, it generally represents a percent of earned premium or other exposure measure. The factor is determined based on prior accident year experience. For example, the IBNR for a class of property coverage might be expected to approximate 20 percent of the latest

year's earned premium. The factor is continually reevaluated in light of emerging claim experience as well as rate changes or other factors that could affect the adequacy of the IBNR factor being employed.

International: Business written by Chartis International operating segment includes both long-tail and short-tail classes of business. For long-tail classes of business, the actuarial methods utilized are analogous to those described above. However, the majority of business written by Chartis International is short-tail, high frequency and low severity in nature. For this business, loss development methods are generally employed to test the loss reserves. AIG maintains a database of detailed historical premium and loss transactions in original currency for business written by Chartis International, thereby allowing AIG actuaries to determine the current reserves without any distortion from changes in exchange rates over time. In testing the Chartis International reserves, AIG's actuaries segment the data by region, country or class of business as appropriate to determine an optimal balance between homogeneity and credibility.

Loss Adjustment Expenses: AIG determines reserves for legal defense and cost containment loss adjustment expenses for each class of business by one or more actuarial methods. The methods generally include development methods analogous to those described for loss development methods. The developments could be based on either the paid loss adjustment expenses or the ratio of paid loss adjustment expenses to paid losses, or both. Other methods include the utilization of expected ultimate ratios of paid loss expense to paid losses, based on actual experience from prior accident years or from similar classes of business. AIG generally determines reserves for adjuster loss adjustment expenses based on calendar year ratios of adjuster expenses paid to losses paid for the particular class of business. AIG generally determines reserves for other unallocated loss adjustment expenses based on the ratio of the calendar year expenses paid to overall losses paid. This determination is generally done for all classes of business combined, and reflects costs of home office claim overhead as a percent of losses paid.

Catastrophes: Special analyses are conducted by AIG in response to major catastrophes in order to estimate AIG's gross and net loss and loss expense liability from the events. These analyses may include a combination of approaches, including modeling estimates, ground-up claim analysis, loss evaluation reports from on-site field adjusters, and market share estimates.

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

For discussion of sensitivity analysis on the reserve for unpaid claims and claims adjustment expenses, see Critical Accounting Estimates Liability for Unpaid Claims and Claims Adjustment Expense.

Asbestos and Environmental Reserves

The estimation of loss reserves relating to asbestos and environmental claims on insurance policies written many years ago is subject to greater uncertainty than other types of claims due to inconsistent court decisions as well as judicial interpretations and legislative actions that in some cases have tended to broaden coverage beyond the original intent of such policies and in others have expanded theories of liability. In addition, reinsurance recoverable balances relating to asbestos and environmental loss reserves are subject to greater uncertainty due to the underlying age of the claim, underlying legal issues surrounding the nature of the coverage, and determination of proper policy period. As such, these balances tend to be subject to increased levels of disputes and legal collection activity when actually billed. The insurance industry as a whole is engaged in extensive litigation over

these coverage and liability issues and is thus confronted with a continuing uncertainty in its efforts to quantify these exposures.

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

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

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

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

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

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

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

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

With respect to asbestos claims handling, AIG's specialized claims staff operates to mitigate losses through proactive handling, supervision and resolution of asbestos cases. Thus, while AIG has resolved all claims with respect to miners and major manufacturers (Tier One), its claims staff continues to operate under the same proactive philosophy to resolve claims involving accounts with products containing asbestos (Tier Two), products

containing small amounts of asbestos, companies in the distribution process, and parties with remote, ill-defined involvement in asbestos (Tiers Three and Four). Through its commitment to appropriate staffing, training, and management oversight of asbestos cases, AIG seeks to mitigate its exposure to these claims.

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

In developing its initial model for AIG in 2005, the third-party actuary reviewed a considerable amount of account, policy and claim information and collaborated closely with management. The third-party actuary has used this base model, updated for necessary assumption changes and new industry data, and AIG's asbestos claims development when performing its reserve studies for AIG every year since 2005.

AIG has identified approximately 800 existing accounts with asbestos-related exposure. Most of those accounts represent multiple underlying individual policies and hundreds of claims. In addition, at this point, there are likely policyholders facing claims who have not yet reported them to AIG, and who may not even be aware they have policy coverage. Policies also may not have been identified by AIG as being exposed to asbestos claims. Commencing in 1985, standard (occurrence-based) commercial general liability policies, which are the policies most likely to respond to asbestos claims, have contained an absolute exclusion for pollution-related damage, and an absolute asbestos exclusion was also implemented.

Due to the significant amount of individual claims and related data for each account, elements of the account-specific data are sampled and analyzed in the reserve modeling. Additionally, the high degree of uncertainty in the estimation process for asbestos reserves reduces the benefit of attempting to develop reserves only on account-specific data. Therefore, generally consistent with industry practice, a ground-up model for asbestos reserves is based on standard industry assumptions combined with key relevant AIG account-specific data. Each year, AIG refines and calibrates this asbestos model with more account-specific data, when appropriate, and with information gained from actual claims history and industry experience. It is accepted practice in the insurance industry to make model refinements from a sample of accounts.

As part of the 2010 study, AIG gathered a list of insureds with new asbestos exposures along with the insureds' policy limits, and information on any closed asbestos claims during the year. AIG initiated additional extensive audits of claimants to assist in compiling, confirming and analyzing coverage information for industry-wide distribution of insurance coverage by carrier for certain exposed insureds. As a result of these efforts, AIG was able to provide more extensive policy and claims data, including settlement agreements, policy details, account narratives and other claims data on a significant number of accounts with asbestos exposure for this review. The third-party actuary used the detailed information to refine its model to consider the AIG-specific experience in addition to reflecting general industry trends In addition, based on this data, AIG reassessed its assumptions about its ability to negotiate favorable settlement terms and increased its expected average cost per claim.

Management reviews the reserve estimates produced by the third-party actuary each year as an element of its overall evaluation and applies the appropriate amount of management judgment in making adjustments to the AIG asbestos reserves when considered necessary.

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

- An analysis was performed on policy-specific information including, for instance, policy limits, layers of coverage, ground-up attachment points, and self-insured retentions/deductibles. This policyholder-specific data provided the third-party actuary with an ability to refine its models to produce more account-specific

reserves and reduce the amount of standard-model assumptions (i.e., industry assumptions). This new information allowed the third-party actuary to consider certain policies for which assumed losses would not be allocated evenly across years (i.e., pro rata) as assumed under the standard model.

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

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

With the assistance of the third-party actuary, AIG periodically reviews its assumptions and modeling parameters used in its reserving estimates to calibrate the model to arrive at the most accurate estimate of AIG's experience. This regular calibration is a necessary step in ensuring that AIG's loss reserve estimate considers all relevant information and produces as accurate an estimate as possible. During its 2010 loss reserve review, the third-party actuary recommended, and AIG agreed, that such changes be made to certain assumptions and model parameters.

AIG conducted a comprehensive analysis of reinsurance recoverability to establish the appropriate asbestos and environmental reserve net of reinsurance. AIG estimates the reinsurance recoverable amount using aggregate ratios based on an analysis of the largest asbestos accounts. AIG determined the amount of reinsurance that would be ceded to insolvent reinsurers or to commuted reinsurance contracts for both reported claims and for IBNR. These amounts were then deducted from the indicated amount of reinsurance recoverable. The year-end 2010 analysis reflected an update to the comprehensive analysis of reinsurance recoverability that was first completed in 2005 and updated each subsequent year. All asbestos accounts for which there was a significant amount of expected unreported losses based on the 2010 review were analyzed to determine the appropriate reserve net of reinsurance.

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

For asbestos, these tests project the losses expected to be reported over the next 16 years, i.e., from 2011 through 2026, based on the actual losses reported through 2010 and the expected future loss emergence for these claims. Three scenarios were tested, with a series of assumptions ranging from more optimistic to more conservative.

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

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At year-end 2010, AIG considered a number of factors and recent experience in addition to the results of the respective top-down and ground-up analyses performed for asbestos and environmental reserves. AIG considered the significant uncertainty that remains as to AIG's ultimate liability relating to asbestos and environmental claims. This uncertainty is due to several factors including:

The long latency period between asbestos exposure and disease manifestation and the resulting potential for involvement of multiple policy periods for individual claims;

Claims filed under the non-aggregate premises or operations section of general liability policies;

The number of insureds seeking bankruptcy protection and the effect of prepackaged bankruptcies;

Diverging legal interpretations; and

With respect to environmental claims, the difficulty in estimating the allocation of remediation cost among various parties.

After carefully considering the results of the ground-up analysis, which AIG updates on an annual basis, as well as all of the above factors, including the recent report year experience, AIG increased its gross asbestos reserves by $2.6 billion and increased its net asbestos reserves by $1.2 billion in 2010. Additionally, during 2010 $389 million gross and $160 million net of adverse incurred loss development pertaining to asbestos was reflected, which was primarily attributed to several large accounts.

Upon completion of the environmental top-down report year analysis performed in the fourth quarter of 2010, a moderate adjustment to gross and net reserves was recognized.

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

As of or for the Year Ended December 31,	**2010**		**2009**		**2008**	
(in millions)	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**
Asbestos:						
Liability for unpaid claims and claims adjustment expense at beginning of year	**$ 3,236**	**$ 1,151**	$ 3,443	$ 1,200	$ 3,864	$ 1,454
Dispositions	**(17)**	**(8)**	(84)	(21)	-	-
Losses and loss expenses incurred*	**2,940**	**1,317**	482	151	273	53
Losses and loss expenses paid*	**(633)**	**(237)**	(605)	(179)	(694)	(307)
Liability for unpaid claims and claims adjustment expense at end of year	**$ 5,526**	**$ 2,223**	$ 3,236	$ 1,151	$ 3,443	$ 1,200
Environmental:						
Liability for unpaid claims and claims adjustment expense at beginning of year	**$ 338**	**$ 159**	$ 417	$ 194	$ 515	$ 237
Dispositions	**(27)**	**(10)**	(37)	(7)	-	-
Losses and loss expenses incurred*	**23**	**24**	2	4	(44)	(2)
Losses and loss expenses paid*	**(94)**	**(46)**	(44)	(32)	(54)	(41)

Liability for unpaid claims and claims adjustment expense at end of year	**$**	**240**	**$**	**127**	$	338	$	159	$	417	$	194
Combined:												
Liability for unpaid claims and claims adjustment expense at beginning of year	**$**	**3,574**	**$**	**1,310**	$	3,860	$	1,394	$	4,379	$	1,691
Dispositions		**(44)**		**(18)**		(121)		(28)		-		-
Losses and loss expenses incurred*		**2,963**		**1,341**		484		155		229		51
Losses and loss expenses paid*		**(727)**		**(283)**		(649)		(211)		(748)		(348)
Liability for unpaid claims and claims adjustment expense at end of year	**$**	**5,766**	**$**	**2,350**	$	3,574	$	1,310	$	3,860	$	1,394

* *All amounts pertain to policies underwritten in prior years, primarily to policies issued in 1984 and prior years.*

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American International Group, Inc., and Subsidiaries

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

At December 31,	2010		2009		2008	
(in millions)	Gross	Net	Gross	Net	Gross	Net
Asbestos	**$ 4,520**	**$ 1,964**	$ 2,072	$ 863	$ 2,301	$ 939
Environmental	**93**	**38**	161	71	249	99
Combined	**$ 4,613**	**$ 2,002**	$ 2,233	$ 934	$ 2,550	$ 1,038

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

As of or for the Years Ended	2010			2009			2008		
December 31,	Asbestos	Environmental	Combined	Asbestos	Environmental	Combined	Asbestos	Environmental	Combined
Claims at beginning of year	**5,417**	**5,994**	**11,411**	5,780	6,674	12,454	6,563	7,652	14,215
Claims during year:									
Opened	**502**	**354**	**856**	615	983	1,598	639	1,065	1,704
Settled	**(247)**	**(125)**	**(372)**	(243)	(215)	(458)	(219)	(207)	(426)
Dismissed or otherwise resolved	**(739)**	**(2,136)**	**(2,875)**	(735)	(1,448)	(2,183)	(1,203)	(1,836)	(3,039)
Claims at end of year	**4,933**	**4,087**	**9,020**	5,417	5,994	11,411	5,780	6,674	12,454

Survival Ratios Asbestos and Environmental

The following table presents AIG's survival ratios for asbestos and environmental claims at December 31, 2010, 2009 and 2008. The survival ratio is derived by dividing the current carried loss reserve by the average payments for the three most recent calendar years for these claims. Therefore, the survival ratio is a simplistic measure estimating the number of years it would be before the current ending loss reserves for these claims would be paid off using recent year average payments. The significant increase in the gross and net survival ratios at December 31, 2010 compared to December 31, 2009 relates to the aforementioned reserve increases recorded in 2010. The December 31, 2009 gross asbestos survival ratio is lower than at December 31, 2008 due to more recent periods included in the rolling average reflecting higher payments. In addition, AIG's survival ratio for asbestos claims was negatively affected by certain favorable settlements during 2008 and 2007. These settlements reduced gross and net asbestos survival ratios at December 31, 2010 by approximately 0.1 years and 0.3 years, respectively; reduced gross and net asbestos survival ratios at December 31, 2009 by approximately 0.9 years and 1.9 years, respectively; and reduced gross and net asbestos survival ratios at December 31, 2008 by approximately 1.1 years and 2.4 years, respectively.

Many factors, such as aggressive settlement procedures, mix of business and level of coverage provided, have a significant effect on the amount of asbestos and environmental reserves and payments and the resultant survival ratio. Moreover, as discussed above, the primary basis for AIG's determination of its reserves are not survival ratios, but instead the ground-up and top-down analysis. Thus, caution should be exercised in attempting to determine reserve adequacy for these claims based simply on this survival ratio.

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

Years Ended December 31,	2010 Gross	2010 Net	2009 Gross	2009 Net	2008 Gross	2008 Net
Survival ratios:						
Asbestos	**8.6**	**9.2**	4.7	3.7	5.2	3.7
Environmental	**3.7**	**3.2**	4.5	3.5	4.4	3.5
Combined	**8.1**	**8.4**	4.7	3.7	5.1	3.7

SunAmerica Operations

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

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

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SunAmerica Results

The following table presents SunAmerica results:

Years Ended December 31, *(in millions)*	2010	2009	2008	Percentage Increase/(Decrease) 2010 vs. 2009	Percentage Increase/(Decrease) 2009 vs. 2008
Domestic Life Insurance:					
Premiums and other considerations	**$ 4,096**	$ 4,252	$ 6,248	(4)%	(32)%
Net investment income	**4,313**	3,819	3,823	13	-
Policyholder benefits and claims incurred	**5,120**	5,027	6,869	2	(27)
Policy acquisition and other expenses	**1,775**	1,748	1,840	2	(5)
Operating income	**1,514**	1,296	1,362	17	(5)
Benefit (amortization) of DAC, VOBA and SIA related to net realized capital gains (losses)	**(45)**	35	364	-	-
Net realized capital losses	**(75)**	(712)	(11,554)	-	-
Goodwill impairment charges	**-**	-	(402)	-	-
Pre-tax income (loss)	**$ 1,394**	$ 619	$ (10,230)	125%	-%
Domestic Retirement Services:					
Premiums and other considerations	**$ 1,134**	$ 1,075	$ 1,396	5%	(23)%
Net investment income	**6,455**	5,734	5,311	13	8
Policyholder benefits and claims incurred	**3,636**	4,065	5,076	(11)	(20)
Policy acquisition and other expenses	**1,419**	1,732	2,823	(18)	(39)
Operating income (loss)	**2,534**	1,012	(1,192)	150	-
Benefit (amortization) of DAC, VOBA and SIA related to net realized capital gains (losses)	**(40)**	73	2,150	-	-
Net realized capital losses	**(1,176)**	(2,802)	(24,858)	-	-
Goodwill impairment charges	**-**	(81)	(818)	-	-
Pre-tax income (loss)	**$ 1,318**	$ (1,798)	$ (24,718)	-%	-%
Total SunAmerica:					
Premiums and other considerations	**$ 5,230**	$ 5,327	$ 7,644	(2)%	(30)%
Net investment income	**10,768**	9,553	9,134	13	5
Policyholder benefits and claims incurred	**8,756**	9,092	11,945	(4)	(24)
Policy acquisition and other expenses	**3,194**	3,480	4,663	(8)	(25)
Operating income	**4,048**	2,308	170	75	
Benefit (amortization) of DAC, VOBA and SIA related to net realized capital gains (losses)	**(85)**	108	2,514	-	-
Net realized capital losses	**(1,251)**	(3,514)	(36,412)	-	-
Goodwill impairment charges	**-**	(81)	(1,220)	-	-
Pre-tax income (loss)	**$ 2,712**	$ (1,179)	$ (34,948)	-%	-%

2010 and 2009 Comparison

SunAmerica reported an increase in operating income in 2010 compared to 2009 primarily due to the following:

- higher net investment income due to a $699 million increase in partnership income, a $539 million increase in valuation gains on ML II and higher call and tender income of $279 million; and

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

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

2009 and 2008 Comparison

SunAmerica reported an increase in operating income in 2009 compared to 2008 primarily due to the following:

- higher net investment income as a result of improved partnership returns ($264 million of income in 2009 compared with losses of $1.2 billion in 2008) as well as lower losses from valuation adjustments from the investment in ML II, which offset the negative effects of higher liquidity in the investment portfolios;

- lower DAC and SIA amortization and related reserve strengthening charges of $611 million in 2009 primarily due to reductions in the long-term growth assumptions for group retirement products and individual variable annuities, and projected increases in surrenders for individual fixed annuities, compared to DAC and SIA charges and related reserve strengthening of $1.5 billion in 2008.

The reduction in the pre-tax loss for SunAmerica in 2009 compared to 2008 reflected a decline in net realized capital losses due principally to a significant decline in other-than-temporary impairments in 2009. See Results of Operations Consolidated Results Premiums and Other Considerations; Net Investment Income; and Net Realized Capital Gains (Losses).

Sales and Deposits

The following table summarizes SunAmerica sales and deposits by product[(a)]:

Years Ended December 31, *(in millions)*	2010	2009	2008	Percentage Increase/(Decrease) 2010 vs. 2009	Percentage Increase/(Decrease) 2009 vs. 2008
Life insurance:					
Periodic premiums	**$ 236**	$ 224	$ 527	5%	(57)%
Single premiums and unscheduled deposits	**167**	81	288	106	(72)
Total life insurance	**403**	305	815	32	(63)
Group retirement product deposits	**6,309**	6,201	7,181	2	(14)
Individual fixed annuity deposits[(b)]	**5,079**	6,231	8,373	(18)	(26)
Individual variable annuity deposits	**2,072**	891	3,455	133	(74)
Retail mutual funds	**1,101**	782	922	41	(15)
Payout annuity deposits	**675**	616	2,585	10	(76)
Group life and health premiums	**85**	97	132	(12)	(27)
Individual annuities runoff	**108**	67	83	61	(19)
Total sales and deposits	**$ 15,832**	$ 15,190	$ 23,546	4%	(35)%

(a)

Includes divested operations in 2009. Life insurance sales include periodic premiums from new business expected to be collected over a one-year period and single premiums and unscheduled deposits from new and existing policyholders. Annuity sales represent deposits from new and existing customers. Sales of group accident and health insurance represent annualized first-year premium from new policies.

(b)

Includes fixed annuity deposits sold through independent life insurance distribution channels.

2010 and 2009 Comparison

Total sales and deposits increased in 2010 compared to 2009 as improved sales from life insurance, group retirement products and individual variable annuities offset a decline in individual fixed annuity deposits. Life insurance sales increased in 2010 compared to 2009 driven by term and universal life products sold through independent and career distribution networks. Group Retirement deposits increased for 2010 primarily due to

improved sales from individual rollovers. Individual fixed annuity deposits decreased primarily due to the low interest rate environment in 2010. Variable annuity sales increased due to competitive product enhancements, reinstatements at a number of key broker-dealers, and increased wholesaler productivity. Payout annuity sales increased in 2010 compared to 2009 as a result of improved structured settlement and immediate annuity sales.

2009 and 2008 Comparison

Total sales and deposits decreased in 2009 compared to 2008. Deposits were negatively affected in 2009 by lower AIG ratings and the lingering effects of negative AIG publicity. Life insurance sales and deposits decreased significantly in 2009 compared to 2008 primarily due to lower financial strength ratings, the lingering effects of negative AIG publicity and the sale of AIG Life Canada. For individual variable annuities, the decrease in 2009 compared to 2008 is also attributable to a general decline in industry sales volumes. Individual fixed and variable annuity sales have decreased due to the temporary suspension of product sales at certain selling organizations due to the effect of negative publicity relating to AIG. However, deposits for individual fixed annuities increased in the second half of 2009 primarily due to increased demand for guaranteed products as well as reinstatement of sales at certain financial institutions that had previously suspended sales. Payout annuities sales decreased primarily due to lower financial strength ratings and the lingering effects of negative AIG publicity.

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Domestic Retirement Services Sales and Deposits

The following table presents the account value rollforward for Domestic Retirement Services:

Years Ended December 31, *(in millions)*	**2010**	2009	2008
Group retirement products			
Balance, beginning of year	**$ 63,419**	$ 56,861	$ 68,109
Deposits annuities	**4,937**	4,856	5,661
Deposits mutual funds	**1,372**	1,345	1,520
Total Deposits	**6,309**	6,201	7,181
Surrenders and other withdrawals	**(6,647)**	(7,233)	(6,693)
Death benefits	**(317)**	(275)	(246)
Net inflows (outflows)	**(655)**	(1,307)	242
Change in fair value of underlying investments, interest credited, net of fees	**5,601**	7,865	(11,490)
Balance, end of year	**$ 68,365**	$ 63,419	$ 56,861
Individual fixed annuities			
Balance, beginning of year	**$ 47,202**	$ 48,394	$ 50,508
Deposits	**4,410**	5,348	7,276
Surrenders and other withdrawals	**(3,520)**	(6,715)	(9,571)
Death benefits	**(1,479)**	(1,700)	(1,721)
Net outflows	**(589)**	(3,067)	(4,016)
Change in fair value of underlying investments, interest credited, net of fees	**1,876**	1,875	1,902
Balance, end of year	**$ 48,489**	$ 47,202	$ 48,394
Individual variable annuities			
Balance, beginning of year	**$ 24,637**	$ 23,593	$ 33,108
Deposits	**2,072**	891	3,455
Surrenders and other withdrawals	**(2,725)**	(2,667)	(4,240)
Death benefits	**(437)**	(404)	(480)
Net outflows	**(1,090)**	(2,180)	(1,265)
Change in fair value of underlying investments, interest credited, net of fees	**2,034**	3,224	(8,250)
Balance, end of year	**$ 25,581**	$ 24,637	$ 23,593
Total Domestic Retirement Services			
Balance, beginning of year	**$ 135,258**	$ 128,848	$ 151,725
Deposits	**12,791**	12,440	17,912
Surrenders and other withdrawals	**(12,892)**	(16,615)	(20,504)
Death benefits	**(2,233)**	(2,379)	(2,447)
Net outflows	**(2,334)**	(6,554)	(5,039)
Change in fair value of underlying investments, interest credited, net of fees	**9,511**	12,964	(17,838)

Balance, end of year, excluding runoff	**142,435**	135,258	128,848
Individual annuities runoff	**4,430**	4,637	5,079
GIC runoff	**8,486**	8,536	14,608
Balance, end of year	**$ 155,351**	$ 148,431	$ 148,535
General and separate account reserves and mutual funds			
General account reserve	**$ 97,515**	$ 94,912	$ 103,748
Separate account reserve	**48,804**	45,444	38,499
Total general and separate account reserves	**146,319**	140,356	142,247
Group retirement mutual funds	**9,032**	8,075	6,288
Total reserves and mutual funds	**$ 155,351**	$ 148,431	$ 148,535

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American International Group, Inc., and Subsidiaries

2010 and 2009 Comparison

Surrender rates have improved compared to the prior year for group retirement products, individual fixed annuities and individual variable annuities as surrenders have returned to more normal levels. Surrender rates for individual fixed annuities have decreased significantly in 2010 due to the low interest rate environment and the relative competitiveness of interest credited rates on the existing block of fixed annuities versus interest rates on alternative investment options available in the marketplace. Surrender rates for group retirement products are expected to increase in 2011 as certain large group surrenders are anticipated.

2009 and 2008 Comparison

Surrenders and other withdrawals increased in 2009 for group retirement products primarily due to higher large group surrenders. However, surrender rates and withdrawals have improved for individual fixed annuities and individual variable annuities.

The following table presents reserves by surrender charge category and surrender rates:

At December 31, *(in millions)*	2010 Group Retirement Products*	2010 Individual Fixed Annuities	2010 Individual Variable Annuities	2009 Group Retirement Products*	2009 Individual Fixed Annuities	2009 Individual Variable Annuities
No surrender charge	**$ 52,742**	**$ 14,006**	**$ 11,859**	$ 47,854	$ 11,444	$ 11,161
0% - 2%	**1,292**	**3,510**	**4,083**	1,509	3,054	4,094
Greater than 2% - 4%	**1,754**	**5,060**	**2,040**	1,918	5,635	2,066
Greater than 4%	**2,753**	**22,777**	**7,361**	3,213	23,885	6,758
Non-Surrenderable	**792**	**3,136**	**238**	850	3,184	558
Total reserves	**$ 59,333**	**$ 48,489**	**$ 25,581**	$ 55,344	$ 47,202	$ 24,637
Surrender rates	**10.3%**	**7.4%**	**11.4%**	12.3%	14.4%	12.1%

* *Excludes mutual funds of $9.0 billion and $8.1 billion in 2010 and 2009, respectively.*

Financial Services Operations

AIG's Financial Services subsidiaries engage in diversified activities including commercial aircraft leasing and the remaining Capital Markets portfolios, which are conducted through ILFC and AIGFP, respectively. Following the classification of AGF as discontinued operations in the third quarter of 2010 (see Note 4 to the Consolidated Financial Statements), AIG's remaining consumer finance businesses are now reported in AIG's Other operations category as part of Divested businesses.

As discussed in Note 3 to the Consolidated Financial Statements, in order to align financial reporting with changes made during the third quarter of 2010 to the manner in which AIG's chief operating decision makers review the businesses to make decisions about resources to be allocated and to assess performance, changes were made to AIG's segment information. During the third quarter of 2010, AIG's Asset Management Group undertook the management responsibilities for non-derivative assets and liabilities of the Capital Markets' businesses of the Financial Services segment. These assets and liabilities are being managed on a spread basis, in concert with the MIP. Accordingly, gains and losses related to these assets and liabilities, primarily consisting of credit valuation adjustment gains and losses are reported in AIG's Other operations category as part of Asset Management Direct Investment business. Also, intercompany interest related to loans from AIG Funding Inc. (AIG Funding) to AIGFP is no longer being allocated to Capital Markets from Other operations.

The remaining Capital Markets derivatives business continues to be reported in the Financial Services segment as part of Capital Markets results.

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During 2010, AIG reclassified aircraft asset impairment charges and operating lease-related charges from Other income to Other expenses and reclassified the provision for overhauls from Other expenses to Other income. Prior periods have been revised to conform to the current period presentation.

Aircraft Leasing

AIG's Aircraft Leasing operations are the operations of ILFC, which generates its revenues primarily from leasing new and used commercial jet aircraft to foreign and domestic airlines. Aircraft Leasing operations also include gains and losses that result from the remarketing of commercial jet aircraft for ILFC's own account, and remarketing and fleet management services for airlines and other aircraft fleet owners.

Capital Markets

AIGFP has continued to unwind its portfolios, including those associated with credit protection written through credit default swaps on super senior risk tranches of diversified pools of loans and debt securities. As a consequence of its wind-down strategy, AIGFP is entering into new derivative transactions only to hedge its current portfolio, reduce risk and hedge the currency, interest rate and other market risks associated with its affiliated businesses. See Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity of Parent and Subsidiaries Financial Services Capital Markets Wind-down. Prior to the wind-down, AIGFP engaged as principal in a wide variety of financial transactions, including standard and customized financial products involving commodities, credit, currencies, energy, equities and interest rates.

Historically, AIGFP derived a significant portion of its revenues from hedged financial positions entered into in connection with counterparty transactions. Prior to the wind-down, AIGFP also participated as a dealer in a wide variety of financial derivatives transactions.

Financial Services Results

Financial Services results were as follows:

Years Ended December 31,				**Percentage Increase/(Decrease)**	
(in millions)	**2010**	**2009**	**2008**	**2010 vs. 2009**	**2009 vs. 2008**
Revenues:					
Aircraft Leasing	**$ 4,718**	$ 4,992	$ 4,810	(5)%	4%
Capital Markets	**527**	1,166	(30,559)	(55)	(104)
Other, including intercompany adjustments	**412**	572	323	(28)	77
Total	**$ 5,657**	$ 6,730	$ (25,426)	(16)%	(126)%
Pre-tax income (loss):					
Aircraft Leasing	**$ (729)**	$ 1,385	$ 1,116	-%	24%
Capital Markets	**209**	684	(30,697)	(69)	(102)
Other, including intercompany adjustments	**(116)**	(63)	(205)	-	-
Total	**$ (636)**	$ 2,006	$ (29,786)	-%	(107)%

2010 and 2009 Comparison

Financial Services reported a pre-tax loss in 2010 compared to pre-tax income in 2009 due to the following:

ILFC reported a pre-tax loss in 2010 compared to pre-tax income in 2009 primarily due to impairment charges recorded on aircraft in its fleet. During the fourth quarter of 2010, new engine options were announced by one of the aircraft manufacturers which promise significant improvements in fuel economy and / or payload capacity. ILFC management expects that this announcement will negatively impact the demand for certain aircraft in its fleet, and as a result recorded impairment charges of $602 million. Also during 2010, ILFC recorded asset impairment losses of $505 million on certain aircraft in its fleet reflecting

management's outlook related to the future recovery of the airline industry due to a decrease in demand for certain aircraft types, increased volatility in fuel costs and changes in other macroeconomic conditions which, when aggregated, resulted in lower future estimated lease rates used in ILFC's annual recurring recoverability assessment. Additionally, ILFC signed agreements to sell 62 aircraft to third parties and recorded asset impairment losses aggregating $416 million, and operating lease related charges aggregating $90 million related to those aircraft. Additionally, ILFC recorded asset impairment losses of $91 million related to the potential sales of nine aircraft. ILFC also incurred increased interest expense driven by higher composite borrowing rates, and an increase in the provision for overhauls to reflect an increase in future reimbursements.

Capital Markets reported lower pre-tax income in 2010 compared to 2009. Unrealized market valuation gains related to its super senior credit default swap portfolio amounted to $598 million and $1.4 billion in 2010 and 2009, respectively. The operating results in 2010 and 2009 include net losses of $200 million and net gains of $775 million, respectively, representing the effect of changes in credit spreads on the valuation of Capital Markets' derivative assets and liabilities. The effect on operating results related to the continued wind-down of Capital Markets' businesses and portfolios was significantly lower during 2010 compared to 2009.

2009 and 2008 Comparison

Financial Services reported pre-tax income in 2009 compared to a very significant pre-tax loss in 2008 primarily due to the following:

ILFC pre-tax income increased 24 percent or $269 million in 2009 compared to 2008. Rental revenues increased $332 million and interest expense decreased $212 million in 2009 compared to 2008. The rental revenues increase was driven to a large extent by a larger aircraft fleet and the interest expense decrease resulted from lower composite borrowing rates. These results were partially offset by higher depreciation expense and provision for overhauls, lower flight equipment marketing revenue, and aircraft impairment charges in 2009 of $51 million.

Capital Markets reported unrealized market valuation gains related to its super senior credit default swap portfolios of $1.4 billion in 2009 and unrealized market valuation losses of $28.6 billion in 2008. These results were partially offset by net gains of $775 million and net losses of $992 million in 2009 and 2008, respectively, representing the effect of changes in credit spreads on the valuation of Capital Markets' derivative assets and liabilities.

Capital Markets Results

2010 and 2009 Comparison

Capital Markets reported lower pre-tax income in 2010 compared to 2009 primarily due to lower market valuation gains related to the super senior credit default swap portfolio and the significant decrease related to the net effect of changes in credit spreads on the valuation of Capital Markets' derivative assets and liabilities, partially offset by lower costs related to the continued wind-down of Capital Markets' businesses and portfolios.

Capital Markets reported unrealized market valuation gains related to the super senior credit default swap portfolio of $598 million for 2010 compared to unrealized market valuation gains of $1.4 billion for 2009. The principal components of Capital Markets' unrealized valuation gains and losses recognized on the super senior credit default swap portfolio were as follows:

Capital Markets recognized an unrealized market valuation loss of $67 million in 2010 with respect to CDS transactions in the corporate arbitrage portfolio, compared to an unrealized market valuation gain of $1.9 billion in 2009 as a result of increasing corporate spreads in 2010 and decreasing corporate spreads in 2009.

- Capital Markets recognized an unrealized market valuation gain of $663 million in 2010, with respect to CDS transactions written on multi-sector CDOs, compared to unrealized market valuation losses of $669 million in 2009 driven primarily by price improvement of the underlying assets.

- Capital Markets recognized an unrealized market valuation gain of $53 million in 2010, with respect to CDS transactions written on regulatory capital prime residential mortgage transactions, compared to an unrealized market valuation gain of $137 million in 2009. The gain in 2009 primarily reflected the fact that one counterparty surrendered its right to call its transactions in that year.

See Critical Accounting Estimates   Level 3 Assets and Liabilities   Valuation of Level 3 Assets and Liabilities for a discussion of Capital Markets' super senior credit default swap portfolio.

During 2010, Capital Markets:

- recognized a gain of $149 million on credit default swap contracts referencing single-name exposures written on corporate, index and asset-backed credits which are not included in the super senior credit default swap portfolio compared to a gain of $240 million in 2009;

- incurred interest charges of $147 million for 2010, relating to intercompany borrowings with AIG that are eliminated in consolidation, flat with the same period in 2009; and

- incurred a net loss of $333 million (including $133 million of losses reflected in the unrealized market valuation loss on super senior credit default swaps) as compared to a gain of $827 million (including $52 million of gains reflected in the unrealized market valuation gain on super senior credit default swaps) in 2009, representing the impact of credit valuation adjustments on Capital Markets' derivative assets and liabilities.

2009 and 2008 Comparison

Capital Markets reported a pre-tax gain in 2009 compared to a very significant pre-tax loss in 2008 primarily due to a market valuation gain in 2009 compared to a loss in 2008 on its super senior credit default swap portfolio. Capital Markets' results also reflect the effects of its wind-down activities. The net pre-tax results were also affected by efforts initiated during the first half of 2008 to preserve liquidity. As a result of AIG's intention to refocus on its core business, Capital Markets began unwinding its businesses and portfolios.

Capital Markets recognized an unrealized market valuation gain of $1.4 billion in 2009 compared to an unrealized market valuation loss of $28.6 billion in 2008, representing the change in fair value of its super senior credit default swap portfolio. The principal components of the valuation gains and losses recognized were as follows:

- Capital Markets recognized an unrealized market valuation gain of $1.9 billion in 2009 with respect to CDS transactions in the corporate arbitrage portfolio, compared to an unrealized market valuation loss of $2.3 billion in 2008. During 2009, the valuation of these contracts benefited from the narrowing of corporate credit spreads, while these spreads widened dramatically during 2008.

- Capital Markets recognized an unrealized market valuation loss of $669 million in 2009 with respect to CDS transactions written on multi-sector CDOs, compared to unrealized market valuation losses of $25.7 billion in 2008. The decrease in the unrealized market valuation loss on this portfolio was largely due to the substantial decline in outstanding net notional amount resulting from the termination of CDS contracts in the fourth quarter of 2008 in connection with the ML III transaction.

During the fourth quarter of 2009, one counterparty notified AIG that it would not terminate early two of its prime residential mortgage transactions. With respect to these two transactions, the counterparty no longer had any rights to terminate the transactions early and was required to pay AIG fees on the original notional amounts reduced only by realized losses through the final maturity. Because these two transactions had weighted average lives that were considerably less than their final legal maturities, there was value to AIG due to the counterparty paying its contractual fees beyond the date at which the net notional amounts

had fully amortized through the final legal maturity date. As a result, an unrealized market valuation gain of $137 million was recorded in 2009. This gain was partially offset by losses on the mezzanine tranches of those same transactions.

During 2009, Capital Markets:

- recognized a gain of $240 million on credit default swap contracts referencing single-name exposures written on corporate, index and asset backed credits which are not included in the super senior credit default swap portfolio, compared to a net loss of $888 million in 2008;

- recognized a net gain of $827 million (including $52 million of gains reflected in the unrealized market valuation gain on super senior credit default swaps) as compared to a loss of $807 million (including $185 million of gains reflected in the unrealized market valuation loss on super senior credit default swaps) in 2008, representing the impact of credit valuation adjustments on Capital Markets' derivative assets and liabilities; and

- incurred an additional charge of $198 million related to a transaction entered into in 2002 whereby Capital Markets guaranteed obligations under leases of office space from a counterparty.

Other Operations

AIG's Other operations includes results from Parent & Other operations, after allocations to AIG's business segments, Mortgage Guaranty operations, Asset Management operations, and results from those divested businesses not included in Discontinued operations.

AIG's Parent & Other operations consist primarily of interest expense, intercompany interest income that is eliminated in consolidation, restructuring costs, expenses of corporate staff not attributable to specific reportable segments, expenses related to efforts to improve internal controls and the financial and operating platforms, corporate initiatives, certain compensation plan expenses, corporate-level net realized capital gains and losses, certain litigation-related charges and net gains and losses on sale of divested businesses which did not qualify for discontinued operations accounting treatment. In addition, fair value gains or losses on AIG's remaining interest in AIA and in the MetLife securities received as consideration from the sale of ALICO are included in Parent & Other.

Divested businesses include results of certain businesses that have been divested or are being wound down or repositioned.

As discussed in Note 3 to the Consolidated Financial Statements, in order to align financial reporting, including changes made during the third quarter of 2010, with the manner in which AIG's chief operating decision makers review the businesses to make decisions about resources to be allocated and to assess performance, changes were made to AIG's segment information. Gains and losses related to non-derivative assets and liabilities of the Capital Markets businesses, primarily consisting of credit valuation adjustment gains and losses are reported in AIG's Other operations category as part of Asset Management Direct Investment business. Also, intercompany interest income related to loans from AIG Funding to AIGFP is no longer being recognized in Parent & Other.

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

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American International Group, Inc., and Subsidiaries

Other Results

The following table presents pre-tax income (loss) for AIG's Other operations:

Years Ended December 31,				**Percentage Increase/(Decrease)**	
(in millions)	**2010**	**2009**	**2008**	**2010 vs. 2009**	**2009 vs. 2008**
Parent & Other:					
Intercompany interest income, net	**$ 412**	$ 647	$ 214	(36)%	202%
Interest expense on FRBNY Credit Facility:					
Accrued and compounding interest	**(636)**	(2,022)	(2,116)	-	-
Amortization of prepaid commitment asset	**(3,471)**	(8,359)	(9,279)	-	-
Total interest expense on FRBNY Credit Facility[(a)]	**(4,107)**	(10,381)	(11,395)	-	-
Other interest expense	**(1,872)**	(2,035)	(1,919)	-	-
Unallocated corporate expenses	**(1,224)**	(1,149)	(967)	-	-
Restructuring expenses	**(458)**	(422)	(195)	-	-
Change in fair value of ML III[(b)]	**-**	(1,401)	(900)	-	-
Change in fair value of MetLife securities	**665**	-	-	-	-
Change in fair value of AIA securities[(c)]	**(638)**	-	-	-	-
Net realized capital gain (loss)	**497**	900	(1,218)	(45)	-
Net gain (loss) on sale of divested businesses	**16,466**	(1,271)	-	-	-
Other miscellaneous, net	**102**	111	73	(8)	52
Total Parent & Other	**$ 9,843**	$ (15,001)	$ (16,307)	-%	-%
Other businesses:					
Mortgage Guaranty	**$ 373**	$ (1,688)	$ (2,488)	-%	-%
Asset Management:					
Direct Investment business	**1,254**	(322)	(13,548)	-	-
Institutional Asset Management	**(151)**	(1,303)	(255)	-	-
Divested businesses	**2,599**	2,040	(1,894)	27	-
Change in fair value of ML III[(b)]	**1,792**	1,820	-	(2)	-
Total Other businesses	**$ 5,867**	$ 547	$ (18,185)	-%	-%
Total Other operations	**$ 15,710**	$ (14,454)	$ (34,492)	-%	-%

(a) *Includes interest expense of $75 million, $89 million and $55 million for 2010, 2009 and 2008, respectively, allocated to discontinued operations in consolidation.*

(b) *Parent & Other contributed its equity interest in ML III to an AIG subsidiary, reported above in Other businesses, during the second quarter of 2009.*

(c) *Represents change in fair value measured from the closing sale price on the October 29, 2010 initial date of trading.*

Parent & Other

Parent & Other reported pre-tax income in 2010 compared to a pre-tax loss in 2009 primarily due to the following:

- a decline in interest expense on the FRBNY Credit Facility;
- gains on sales of divested businesses in 2010, primarily related to AIA, compared to losses in 2009 as shown in the table below; and
- the absence in 2010 of losses related to ML III due to the contribution of its equity interest in ML III to an AIG subsidiary in 2009.

Parent & Other pre-tax loss decreased in 2009 compared to 2008 primarily due to net realized capital gains in 2009 compared to losses in 2008 and a decline in interest expense on the FRBNY Credit Facility. See

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Consolidated Results   Interest Expense herein for further discussion of the decline in interest expense. Additionally, Parent & Other pre-tax loss in 2009 includes a decline in fair value of AIG's equity interest in ML III, restructuring expenses, and net losses on sales of divested businesses.

The following table summarizes the net gain (loss) on sale of divested businesses:

Years Ended December 31,	**Gain/(Loss)**	
(in millions)	**2010**	**2009**
AIA*	**$ 16,577**	$ -
Consumer Finance businesses	**(56)**	(375)
AIG Capital India	**(40)**	-
A.I. Credit	**(33)**	(287)
AIG Private Bank	**-**	111
AIG Life Canada	**-**	111
Transatlantic	**-**	(497)
21st Century	**-**	(416)
HSB	**-**	177
Other businesses	**18**	(95)
Total	**$ 16,466**	$ (1,271)

* *During the second quarter of 2010, AIG and Prudential plc terminated the AIA purchase agreement they had entered in March 2010 and in accordance with the terms of the purchase agreement, Prudential plc paid AIG a termination fee of $228 million, which is included in this amount.*

Other Businesses

Mortgage Guaranty

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

2010 and 2009 Comparison

Mortgage Guaranty reported pre-tax income in 2010, driven by favorable prior year reserve development due to increased cures, rescissions and claims denials, compared to a pre-tax loss in 2009. This improvement reflected a decline in claims and claims adjustment expenses incurred of $2.4 billion, offset in part by lower earned premiums in 2010 and by an amortization of the second-lien premium deficiency reserve of $222 million in the first quarter of 2009. Domestic first-lien, second-lien and international businesses reported pre-tax income of $198 million, $58 million and $86 million, respectively, for 2010 which was $1.3 billion, $341 million and $347 million higher, respectively, than 2009. The improvement in pre-tax income reflects the decline in claims and claims adjustment expenses of $1.4 billion for first liens, $607 million for second liens and $394 million for international markets. The lower claims and claims adjustment expenses include favorable prior year development of $668 million for 2010 compared to unfavorable prior year development of $38 million for 2009. The improved pre-tax results correspond to lower levels of newly reported delinquencies in the first-lien, second-lien and international products, higher mortgage cure rates on existing first-lien and international delinquent loans, higher rescission rates on first-lien claims and the recognition of stop loss limits on certain second-lien policies, partially offset by increased delinquencies in private student loans. During 2010, UGC commuted the majority of its private student loan portfolio.

UGC continues to deny claims and rescind coverage on loans (collectively referred to as rescissions) due to fraudulent or undocumented claims, underwriting guideline violations and other deviations from contractual terms, mostly related to the 2006 and 2007 vintage books of business. These policy violations have resulted in loan rescissions totaling $694 million of claims on first-lien business during 2010 compared to $263 million during 2009. Although rescissions will continue to affect UGC's financial results, lenders and mortgage servicers have added

resources and increased their efforts to find missing documents supporting their claim submissions. This has resulted in a higher level of appeals and in certain cases the overturn of rescissions and the subsequent claim payments. Although these items may increase volatility in the future, AIG believes it has provided appropriate reserves for currently delinquent loans, consistent with industry practice.

During 2010, foreclosure moratoriums, state attorneys general investigations into lending practices and new financial regulations were initiated, which may affect UGC's future financial results. Final resolution of these issues is unclear and UGC cannot reasonably estimate the ultimate financial impact that any of these actions individually or collectively may have on its future results of operations or financial condition.

UGC, like other participants in the mortgage insurance industry, has made claims against various counterparties in relation to alleged underwriting failures, and received similar claims from counterparties. These claims and counterclaims allege breach of contract, breach of good faith and fraud among other allegations. During 2010, UGC settled certain of these lawsuits and arbitrations with various counterparties.

2009 and 2008 Comparison

Mortgage Guaranty's pre-tax loss for 2009 decreased compared to 2008. The decreased pre-tax loss reflects a decline in loss and loss expenses incurred of $394 million combined with a $483 million reduction in operating expenses as a result of the recognition of a premium deficiency reserve of $222 million in 2008 and the release of the entire $222 million premium deficiency reserve in 2009. Domestic first-lien and second-lien businesses reported pre-tax losses of $1.06 billion and $283 million, respectively, for 2009 which were $72 million and $902 million, respectively, lower than 2008. These reductions in pre-tax losses reflect the declines in loss and loss expenses of $154 million for first liens and $443 million for second liens in addition to the release of the second-lien premium deficiency reserve in 2009. The improved operating results correspond with the relative slowing of declines in domestic housing values and, primarily in the case of second liens, the recognition of stop loss limits on certain policies. Domestic private student loans and international businesses pre-tax losses of $70 million and $261 million, respectively, for 2009 were $71 million and $104 million higher, respectively, than during 2008.

During 2008, UGC tightened underwriting guidelines and increased premium rates for its first-lien business, ceased insuring new second-lien loans as of September 30, 2008 and during the fourth quarter of 2008 ceased insuring new private student loan business and suspended insuring new business throughout its European operations. All of these actions were in response to the worsening conditions in the global housing markets and resulted in a significant decline in new business written during the second half of 2008 and throughout 2009. This is reflected in 2009 new insurance written of $14 billion which was 61 percent below 2008 levels. Earned premiums during 2009 of $1.0 billion were 1 percent below 2008 earned premiums, reflecting the high level of persistency in the older books of business resulting from relatively consistent mortgage interest rates, tightening of refinancing requirements throughout the mortgage market and a weak domestic residential resale market.

Risk-in-Force

The following table presents risk in force and delinquency ratio information for UGC's domestic business:

At December 31, ***(dollars in billions)***	**2010**	**2009**
Domestic first-lien:		
Risk in force	**$ 25.3**	$ 26.4
60+ day delinquency ratio on primary loans[(a)]	**16.3%**	18.4%
Domestic second-lien:		
Risk in force[(b)]	**$ 2.1**	$ 2.5

(a) *Based on number of policies, consistent with mortgage industry practice.*

(b)

Represents the full amount of second-lien loans insured reduced for contractual aggregate loss limits on certain pools of loans, usually 10 percent of the full amount of loans insured in each pool. Certain second-lien pools have reinstatement provisions, with total risk-in-force of $569 million, that will expire as the loan balances are repaid.

Dispositions

In December 2009, UGC entered into two stock purchase agreements for the sale of its Canadian and Israel operations. The Israel transaction closed on January 21, 2010 and the Canadian transaction closed on April 16, 2010.

Change in Fair Value of ML III

The gain of $1.8 billion on ML III for 2010 was attributable to the shortening of weighted average life by 1.34 years. Additionally, fair value for 2010 was positively affected by a decrease in projected credit losses in the underlying collateral securities. During 2010, credit spreads tightened by 287 basis points.

Asset Management Operations

AIG's Asset Management operations include the results of the Direct Investment businesses and the Institutional Asset Management business.

On March 26, 2010, AIG completed the sale of its third-party asset management business. The results of operations from January 1 through the closing of the sale are included in the Institutional Asset Management results. Subsequent to the sale of AIG's third-party asset management business, the revenues of the Institutional Asset Management business are derived from providing asset management services to AIG and its subsidiaries, which are eliminated in consolidation.

Direct Investment Business Results

The Direct Investment business includes results for the MIP, AIG Global Real Estate and the results of certain non-derivative assets and liabilities of Capital Markets now managed by the Asset Management Group. The revenues and pre-tax income (loss) for these operations are affected by the general conditions in the credit, equity, interest rate, foreign exchange and real estate markets. In addition, net realized gains are contingent upon investment maturity levels and market conditions.

2010 and 2009 Comparison

The Direct Investment business recognized pre-tax income in 2010 driven by:

- its allocated share of the gain on the sale of the Otemachi building of $620 million;
- gains on the sale of assets sold primarily to create liquidity in the fourth quarter;
- net unrealized gain on assets and liabilities accounted for under the fair value option where tightening asset spreads exceeded liability spreads; and
- significantly lower impairments on fixed maturity and real estate investments.

2009 and 2008 Comparison

The Direct Investment business reported a lower pre-tax loss in 2009 compared to 2008 due to:

- significantly lower other-than-temporary impairments on fixed maturity investments driven by improved credit environment and the adoption of the new accounting standard on other-than-temporary impairments; and

the positive impact of AIG's credit spread widening on liabilities for which AIG elected the fair value option, offset by increased net fair value losses on foreign exchange and interest rate derivatives not qualifying for hedge accounting treatment.

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MIP enters into derivative arrangements to hedge the effect of changes in interest rates and currency associated with the fixed and floating rate and foreign currency denominated obligations issued under these programs. Substantially all of these hedging relationships do not qualify for hedge accounting treatment and therefore create volatility in operating results despite being effective economic hedges. Further, the Direct Investment business had previously invested in short single name credit default swaps in order to obtain unfunded credit exposure.

The following table presents credit valuation adjustment gains (losses) for the Direct Investment Business (excluding intercompany transactions):

(in millions)

	Counterparty Credit Valuation Adjustment on Assets		**AIG's Own Credit Valuation Adjustment on Liabilities**
Year Ended December 31, 2010			
Bond trading securities	**$ 1,678**	Notes and bonds payable	**$ (251)**
Loans and other assets	**40**	Hybrid financial instrument liabilities	**(311)**
		GIAs	**(173)**
		Other liabilities	**(44)**
Increase in assets	**$ 1,718**	Increase in liabilities	**$ (779)**
Net pre-tax increase to Other income	**$ 939**		
Year Ended December 31, 2009			
Bond trading securities	$ 2,095	Notes and bonds payable	$ (163)
Loans and other assets	(48)	Hybrid financial instrument liabilities	(83)
		GIAs	172
		Other liabilities	(12)
Increase in assets	$ 2,047	Increase in liabilities	$ (86)
Net pre-tax increase to Other income	$ 1,961		

Institutional Asset Management Results

Institutional Asset Management includes AIG's internal asset management business and AIG Markets. AIG Markets acts as a derivative intermediary transacting with AIG and its subsidiaries and third parties.

2010 and 2009 Comparison

Institutional Asset Management recognized a pre-tax loss in 2010 driven by operating expenses which exceeded asset management fees as well as the sale and deconsolidation of the operating results of AIG's third-party asset management business and certain previously consolidated private equity investments. Also contributing to the operating loss is the negative impact of AIG's narrowing credit spreads on the valuation of derivative liabilities held through AIG Markets.

2009 and 2008 Comparison

Institutional Asset Management recognized an increased pre-tax loss in 2009 compared to 2008, primarily resulting from goodwill impairments in 2009 as substantially all of the operating unit's goodwill was impaired in the third quarter of 2009, impairments on private equity investments and a decline in unrealized carried interest revenues. A total of $609 million in goodwill impairments was recorded in 2009, with $287 million offset in noncontrolling interests, which is not included in pre-tax income (loss). Unrealized carried interest was a revenue stream earned by the third-party asset management business which was sold in the first quarter of 2010.

Divested Businesses

Divested businesses include the operating results of divested businesses that did not qualify for discontinued operations accounting through the date of their sale as well as certain non-core businesses currently in run-off.

Divested businesses include the historical results of AIA through October 29, 2010. On October 29, 2010, AIG completed an initial public offering of 8.08 billion ordinary shares of AIA for aggregate gross proceeds of approximately $20.51 billion. Upon completion of the initial public offering, AIG owned approximately 33 percent of AIA's outstanding shares. Accordingly, AIG deconsolidated AIA and recorded a pre-tax gain of $16.3 billion ($12.8 billion after tax) on the transaction.

Following the classification of AGF as discontinued operations in the third quarter of 2010 (see Note 4 to the Consolidated Financial Statements), AIG's remaining consumer finance businesses are now reported in AIG's Other operations category as part of Divested businesses.

At December 31, 2010, the remaining consumer finance operations were conducted through the AIG Federal Savings Bank and the Consumer Finance Group in Poland. During 2010, AIG completed the sale of consumer finance operations in Argentina, Colombia, India and Taiwan and its banking business in Poland.

Investments

Investment Strategy

AIG's investment strategies are tailored to the specific business needs of each operating unit. The investment objectives are driven by the business model for each of the businesses: general insurance, life insurance, retirement services and the Direct Investment business. The primary objectives are generation of investment income, preservation of capital, liquidity management and growth of surplus to support the insurance products.

At the local operating unit level, investment strategies are based on considerations that include the local market, liability duration and cash flow characteristics, rating agency and regulatory capital considerations, legal investment limitations, tax optimization and diversification.

The majority of assets backing insurance liabilities at AIG consist of intermediate and long duration fixed maturity securities. In the case of life insurance and retirement services companies, as well as in the Direct Investment business, the fundamental investment strategy is, as nearly as is practicable, to match the duration characteristics of the liabilities with assets of comparable duration. Fixed maturity securities held by the insurance companies included in Chartis U.S. historically have consisted primarily of laddered holdings of tax-exempt municipal bonds, which provided attractive after-tax returns and limited credit risk. In order to meet the current risk/return and tax objectives of Chartis U.S., the domestic property and casualty companies have begun to shift investment allocations away from tax-exempt municipal bonds towards taxable instruments which meet the companies' liquidity, duration and credit quality objectives as well as current risk-return and tax objectives. Fixed maturity securities held by Chartis International companies consist primarily of intermediate duration high-grade securities.

The market price of fixed maturity securities reflects numerous components, including interest rate environment, credit spread, embedded optionality (such as call features), liquidity, structural complexity, foreign exchange risk and other credit and non-credit factors. However, in most circumstances, pricing is most sensitive to interest rates, such that the market price declines as interest rates rise, and increases as interest rates fall. This effect is more pronounced for longer duration securities.

AIG accounts for the vast majority of the invested assets held by its insurance companies at fair value. However, with limited exceptions (primarily with respect to separate account products on AIG's Consolidated Balance Sheet), AIG does not modify the fair value of its insurance liabilities for changes in interest rates, even though rising interest rates have the effect of reducing the fair value of such liabilities, and falling interest rates have the opposite effect. This results in the recording of changes in unrealized gains (losses) on securities in Accumulated other comprehensive income resulting from changes in interest rates without any correlative, inverse changes in gains (losses) on AIG's liabilities. Because AIG's asset duration in certain low-yield currencies,

particularly Japan and Taiwan, is shorter than its liability duration, AIG views increasing interest rates in these countries as economically advantageous, notwithstanding the effect that higher rates have on the market value of its fixed maturity portfolio.

At December 31, 2010, approximately 88 percent of the fixed maturity securities were held by domestic entities. Approximately 23 percent of such securities were rated AAA by one or more of the principal rating agencies. Approximately 12 percent were below investment grade or not rated. AIG's investment decision process relies primarily on internally generated fundamental analysis and internal risk ratings. Third-party rating services' ratings and opinions provide one source of independent perspective for consideration in the internal analysis.

A significant portion of the foreign fixed maturity portfolio is rated by Moody's, S&P or similar foreign rating services. Rating services are not available in all overseas locations. AIG's Credit Risk Committee closely reviews the credit quality of the foreign portfolio's non-rated fixed maturity securities. At December 31, 2010, approximately 24 percent of the foreign fixed income investments were either rated AAA or, on the basis of AIG's internal analysis, were equivalent from a credit standpoint to securities so rated. Approximately 5 percent were below investment grade or not rated at that date. Approximately 35 percent of the foreign fixed maturity portfolio is sovereign fixed maturity securities supporting policy liabilities in the country of issuance.

The following table presents the credit ratings of AIG's fixed maturity investments:

December 31,	2010	2009
Rating:		
AAA	**24%**	23%
AA	**22**	24
A	**21**	28
BBB	**22**	17
Below investment grade	**7**	6
Non-rated	**4**	2
Total	**100%**	100%

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Investments by Segment

The following tables summarize the composition of AIG's investments by segment:

(in millions)	Chartis	SunAmerica	Financial Services	Other	Total
At December 31, 2010					
Fixed maturity securities:					
Bonds available for sale, at fair value	**$ 88,904**	**$ 128,347**	**$ 108**	**$ 10,943**	**$ 228,302**
Bond trading securities, at fair value	**-**	**1,307**	**339**	**24,536**	**26,182**
Equity securities:					
Common and preferred stock available for sale, at fair value	**3,827**	**218**	**2**	**534**	**4,581**
Common and preferred stock trading, at fair value	**-**	**1**	**152**	**6,499**	**6,652**
Mortgage and other loans receivable, net of allowance	**690**	**16,727**	**71**	**1,879**	**19,367**
Finance receivables, net of allowance	**-**	**-**	**671**	**199**	**870**
Flight equipment primarily under operating leases, net of accumulated depreciation	**-**	**-**	**38,510**	**-**	**38,510**
Other invested assets	**13,743**	**13,069**	**270**	**15,128**	**42,210**
Securities purchased under agreements to resell, at fair value	**-**	**-**	**-**	**1,553**	**1,553**
Short-term investments	**11,799**	**19,160**	**3,878**	**7,348**	**42,185**
Total investments[(a)]	**118,963**	**178,829**	**44,001**	**68,619**	**410,412**
Cash	**572**	**270**	**302**	**414**	**1,558**
Total invested assets[(b)]	**$ 119,535**	**$ 179,099**	**$ 44,303**	**$ 69,033**	**$ 411,970**
At December 31, 2009					
Fixed maturity securities:					
Bonds available for sale, at fair value	$ 79,507	$ 116,629	$ 508	$ 168,907	$ 365,551
Bond trading securities, at fair value	-	846	388	30,009	31,243
Equity securities:					
Common and preferred stock available for sale, at fair value	2,770	320	15	6,417	9,522
Common and preferred stock trading, at fair value	48	1	388	7,881	8,318
Mortgage and other loans receivable, net of allowance	9	17,728	168	9,556	27,461
Finance receivables, net of allowance	-	-	1,328	18,999	20,327
Flight equipment primarily under operating leases, net of accumulated depreciation	-	-	44,091	-	44,091
Other invested assets	11,668	13,141	170	20,256	45,235
Securities purchased under agreements to resell, at fair value	-	-	-	2,154	2,154
Short-term investments	12,094	17,456	2,145	15,568	47,263
Total investments[(a)]	106,096	166,121	49,201	279,747	601,165
Cash	780	63	1,585	1,972	4,400
Total invested assets	$ 106,876	$ 166,184	$ 50,786	$ 281,719	$ 605,565

(a) *At December 31, 2010, approximately 85 percent and 15 percent of investments were held by domestic and foreign entities, respectively, compared to approximately 60 percent and 40 percent, respectively, at December 31, 2009 reflecting the deconsolidation of AIA and sale of ALICO in 2010.*

(b) *Total invested assets of businesses held for sale amounted to $96.3 billion at December 31, 2010. See Note 4 to the Consolidated Financial Statements.*

Chartis

In AIG's general insurance business, the duration of liabilities for long-tail casualty lines is greater than other lines. As differentiated from the life insurance and retirement services companies, the focus is not on asset-liability matching, but on preservation of capital and growth of surplus.

Fixed income holdings of Chartis U.S., with an average duration of 4.1 years, are currently comprised primarily of tax-exempt securities, which provide attractive risk-adjusted after-tax returns as well as taxable municipal bonds,

government bonds and agency and corporate securities. The majority of these high quality investments are rated AAA or AA.

Fixed income assets held in Chartis International are of high quality and short to intermediate duration, averaging 2.5 years.

While invested assets backing reserves are invested in conventional fixed income securities in Chartis U.S., a modest portion of surplus is allocated to large capitalization, high-dividend, public equity strategies and to alternative investments, including private equity and hedge funds. Notwithstanding the current environment, these investments have provided a combination of added diversification and attractive long-term returns over time.

SunAmerica

With respect to SunAmerica companies, AIG uses asset-liability management as a tool to determine the composition of the invested assets. AIG's objective is to maintain a matched asset-liability structure. However, in certain markets, the absence of long-dated fixed income investment instruments may preclude a matched asset-liability position. In addition, AIG may occasionally determine that it is economically advantageous to be temporarily in an unmatched position. To the extent that AIG has maintained a matched asset-liability structure, the economic effect of interest rate fluctuations is partially mitigated.

AIG's investment strategy for SunAmerica is to produce cash flows greater than maturing insurance liabilities. There exists a future investment risk associated with certain policies currently in-force which will have premium receipts in the future. That is, the investment of these future premium receipts may be at a yield below that required to meet future policy liabilities.

AIG actively manages the interest rate assumptions and crediting rates used for its new and in force business. Business strategies continue to evolve to maintain profitability of the overall business.

The investment of insurance cash flows and reinvestment of the proceeds of matured securities and coupons requires active management of investment yields while maintaining satisfactory investment quality and liquidity.

AIG actively manages the asset-liability relationship in its domestic operations. This relationship is more easily managed through the availability of qualified long-term investments.

A number of guaranteed benefits, such as living benefits or guaranteed minimum death benefits, are offered on certain variable life and variable annuity products. The fair value of these benefits is measured based on actuarial and capital market assumptions related to projected cash flows over the expected lives of the contracts. AIG manages its exposure resulting from these long-term guarantees through reinsurance or capital market hedging instruments. SunAmerica has taken positions in certain derivative financial instruments in order to hedge the impact of changes in equity markets and interest rates on these benefit guarantees. SunAmerica executes listed futures and options contracts on equity indexes to hedge certain guarantees of variable annuity products. SunAmerica also enters into various types of futures and options contracts, primarily to hedge changes in value of certain guarantees of variable annuities due to fluctuations in interest rates. SunAmerica's interest rate hedging instruments include listed futures on government securities and listed options on government securities.

With respect to over-the-counter derivatives, SunAmerica deals with highly rated counterparties and does not expect the counterparties to fail to meet their obligations under the contracts. SunAmerica has controls in place to monitor credit exposures by limiting transactions with specific counterparties within specified dollar limits and assessing the creditworthiness of counterparties periodically. SunAmerica generally uses ISDA Master Agreements and Credit Support Annexes with bilateral collateral provisions to reduce counterparty credit exposures.

Available for sale bonds and equity securities are subject to declines in fair value. Such declines in fair value are presented in unrealized appreciation (depreciation) of investments, net of taxes, as a component of Accumulated other comprehensive income. AIG recognizes the credit component of an other-than-temporary impairment of a fixed maturity security in earnings and the non-credit component in Accumulated other comprehensive income when AIG does not intend to sell the security or it is more likely than not that AIG will not be required to sell the security prior to recovery. See Investments   Other-Than-Temporary Impairments herein. Generally, insurance

regulations restrict the types of assets in which an insurance company may invest. When permitted by regulatory authorities and when deemed necessary to protect insurance assets, including invested assets, from adverse movements in foreign currency exchange rates, interest rates and equity prices, AIG and its insurance subsidiaries may enter into derivative transactions as end users to hedge their exposures. For a further discussion of AIG's use of derivatives, see Risk Management Segment Risk Management Financial Services herein.

Financial Services

For a discussion of the unwinding of AIG's Capital Markets' businesses and portfolios, see Capital Resources and Liquidity Liquidity of Parent and Subsidiaries Capital Markets Wind-down. The following information pertains to AIGFP's operations during this wind-down.

Capital Markets derivative transactions are carried at fair value. AIGFP reduces its market risk exposure through similarly valued offsetting transactions including swaps, trading securities, options, forwards and futures. For discussion on the use of derivatives by Capital Markets, see Results of Operations Segment Results Financial Services Operations Capital Markets and Segment Risk Management Financial Services Derivative Transactions herein and Note 12 to the Consolidated Financial Statements.

Other Businesses

Invested assets of the Direct Investment business primarily include those supporting the MIP, certain non-derivative assets and liabilities of Capital Markets and proprietary investments of AIG Global Real Estate.

MIP

The MIP business was originally created to generate spread income from investments yielding returns greater than AIG's cost of funds. The invested assets are predominantly fixed maturity securities and include U.S. residential mortgage-backed securities, asset-backed securities and commercial mortgage-backed securities as well as commercial mortgage loans. Due to principal losses on the investment portfolio, the strategy of the business has focused on generating sufficient liquidity in order to fund maturing liabilities.

Non-derivative Assets and Liabilities of Capital Markets

Management's objective is to minimize interest rate, currency, commodity and equity risks associated with its investment securities. Market risk associated with the investment securities is hedged on a portfolio basis effectively converting the returns to floating U.S. dollars. While not qualifying for hedge accounting treatment, these transactions achieve the economic result of limiting interest rate volatility arising from such securities. The market risk associated with such hedges is managed on a portfolio basis.

Securities purchased under agreements to resell are treated as collateralized financing transactions. AIGFP took possession of or obtained a security interest in securities purchased under agreements to resell.

Historically, AIGFP used the proceeds from the issuance of notes and bonds and GIAs to invest in a diversified portfolio of securities, including trading securities, securities available for sale and derivative transactions. The funds were also invested in securities purchased under agreements to resell. The proceeds from the disposal of these trading securities, securities available for sale and securities purchased under agreements to resell were used to fund the maturing GIAs or other AIGFP financings. For a further discussion, see Capital Resources and Liquidity Debt herein.

AIGFP owns inventories in certain commodities in which it trades, and may reduce its exposure to market risk through the use of swaps, forwards, futures and option contracts. Physical commodities are recorded at the lower of cost or fair value.

Trading securities, at fair value, and securities and spot commodities sold but not yet purchased, at fair value, are marked to fair value daily with the unrealized gain or loss recognized in income. These trading securities are purchased and sold as necessary to meet the risk management and business objectives of Capital Markets operations.

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AIG Global Real Estate

AIG Global Real Estate maintains a proprietary investment portfolio of direct real estate investments and investments in real estate-based joint ventures and partnerships. AIG Global Real Estate invests primarily in strategic and opportunistic development projects domiciled in the U.S., and Europe and Asia.

Available for Sale Investments

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)]
December 31, 2010					
Bonds available for sale:					
U.S. government and government sponsored entities	$ 7,239	$ 184	$ (73)	$ 7,350	$ -
Obligations of states, municipalities and political subdivisions	45,297	1,725	(402)	46,620	2
Non-U.S. governments	14,780	639	(75)	15,344	(28)
Corporate debt	118,729	8,827	(1,198)	126,358	99
Mortgage-backed, asset-backed and collateralized:					
RMBS	20,661	700	(1,553)	19,808	(648)
CMBS	7,320	240	(1,149)	6,411	(218)
CDO/ABS	6,643	402	(634)	6,411	32
Total mortgage-backed, asset-backed and collateralized	34,624	1,342	(3,336)	32,630	(834)
Total bonds available for sale[(b)]	220,669	12,717	(5,084)	228,302	(761)
Equity securities available for sale:					
Common stock	1,820	1,931	(52)	3,699	-
Preferred stock	400	88	(1)	487	-
Mutual funds	351	46	(2)	395	-
Total equity securities available for sale	2,571	2,065	(55)	4,581	-

Total[c]	**$**	**223,240**	**$**	**14,782**	**$**	**(5,139)**	**$**	**232,883**	**$**	**(761)**
December 31, 2009										
Bonds available for sale:										
U.S. government and government sponsored entities	$	5,098	$	174	$	(49)	$	5,223	$	-
Obligations of states, municipalities and political subdivisions		52,324		2,163		(385)		54,102		-
Non-U.S. governments		63,080		3,153		(649)		65,584		(1)
Corporate debt		185,188		10,826		(3,876)		192,138		119
Mortgage-backed, asset-backed and collateralized:										
RMBS		32,173		991		(4,840)		28,324		(2,121)
CMBS		18,717		195		(5,623)		13,289		(739)
CDO/ABS		7,911		284		(1,304)		6,891		(63)
Total mortgage-backed, asset-backed and collateralized		58,801		1,470		(11,767)		48,504		(2,923)
Total bonds available for sale[b]		364,491		17,786		(16,726)		365,551		(2,805)
Equity securities available for sale:										
Common stock		4,460		2,913		(75)		7,298		-
Preferred stock		740		94		(20)		814		-
Mutual funds		1,264		182		(36)		1,410		-
Total equity securities available for sale		6,464		3,189		(131)		9,522		-
Total[c]	$	370,955	$	20,975	$	(16,857)	$	375,073	$	(2,805)

(a) *Represents the amount of other-than-temporary impairment losses recognized in Accumulated other comprehensive loss, which, starting on April 1, 2009, were not included in earnings. Amount includes unrealized gains and losses on impaired securities relating to changes in the value of such securities subsequent to the impairment measurement date.*

(b) *At December 31, 2010 and 2009, bonds available for sale held by AIG that were below investment grade or not rated totaled $18.6 billion and $24.5 billion, respectively.*

(c) *Excludes $80.5 billion and $36.1 billion of available for sale investments at fair value from businesses held for sale at December 31, 2010 and December 31, 2009, respectively. See Note 4 to the Consolidated Financial Statements herein.*

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The following table presents the fair value of AIG's available for sale U.S. municipal bond portfolio by state and type:

December 31, 2010 *(in millions)*	**State General Obligation**	**Local General Obligation**	**Revenue**	**Total Fair Value**
State:				
California	$ 788	$ 1,628	$ 3,937	$ 6,353
New York	3	813	5,346	6,162
Texas	201	3,199	2,371	5,771
Florida	915	38	1,610	2,563
Washington	900	547	937	2,384
Massachusetts	1,068	10	1,088	2,166
Illinois	241	926	845	2,012
New Jersey	38	3	1,272	1,313
Georgia	670	122	517	1,309
Ohio	345	321	622	1,288
Arizona	-	210	1,067	1,277
Pennsylvania	700	138	339	1,177
Virginia	77	250	817	1,144
All Other	2,743	2,086	6,783	11,612
Total[(a)(b)]	**$ 8,689**	**$ 10,291**	**$ 27,551**	**$ 46,531**

(a) *Excludes certain university and not-for-profit entities that issue in the corporate debt market. Includes industrial revenue bonds.*

(b) *Includes $6.4 billion of pre-refunded U.S. municipal bonds.*

At December 31, 2010, the U.S. municipal bond portfolio was composed primarily of essential service revenue bonds and high-quality tax-backed bonds with 99 percent of the portfolio rated A or higher.

The following table presents the industry category distribution of AIG's corporate debt securities:

December 31, Industry Category	**2010**[(a)]	**2009**
Financial institutions:		
Money Center/Global Bank Groups	**12%**	18%
Regional banks other	**3**	5
Life insurance	**4**	4
Securities firms and other finance companies	**2**	2
Insurance non-life	**4**	3
Regional banks North America	**2**	2
Other financial institutions	**5**	4
Utilities	**16**	14
Communications	**8**	8
Consumer noncyclical	**8**	8
Capital goods	**6**	7
Energy	**6**	5

Consumer cyclical	**8**	6
Other	**16**	14
Total[(b)]	**100%**	100%

(a) *Excludes corporate debt securities held by businesses held for sale as of December 31, 2010.*

(b) *At December 31, 2010 and 2009, approximately 93 percent and 94 percent, respectively, of these investments were rated investment grade.*

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Investments in Residential Mortgage-Backed Securities (RMBS)

The following table presents AIG's RMBS investments by year of vintage:

	December 31, 2010					December 31, 2009				
(in millions)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Percent of Amortized Cost**	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Percent of Amortized Cost**
Total RMBS[(a)]										
2010	**$ 4,157**	**$ 11**	**$ (53)**	**$ 4,115**	**20%**	$ -	$ -	$ -	$ -	-%
2009	**881**	**9**	**(3)**	**887**	**4**	1,716	19	(6)	1,729	5
2008	**937**	**39**	**(2)**	**974**	**4**	3,418	135	(1)	3,552	11
2007	**2,836**	**114**	**(213)**	**2,737**	**14**	4,982	135	(881)	4,236	16
2006	**2,399**	**99**	**(230)**	**2,268**	**12**	5,206	197	(1,161)	4,242	16
2005 and prior	**9,451**	**428**	**(1,052)**	**8,827**	**46**	16,851	505	(2,791)	14,565	52
Total RMBS	**$ 20,661**	**$ 700**	**$ (1,553)**	**$ 19,808**	**100%**	$ 32,173	$ 991	$ (4,840)	$ 28,324	100%
Alt-A										
2010	**$ 70**	**$ 1**	**$ (1)**	**$ 70**	**2%**	$ -	$ -	$ -	$ -	-%
2009	**-**	**-**	**-**	**-**	**-**	-	-	-	-	-
2008	**-**	**-**	**-**	**-**	**-**	-	-	-	-	-
2007	**1,004**	**39**	**(76)**	**967**	**28**	1,490	21	(408)	1,103	28
2006	**724**	**13**	**(98)**	**639**	**21**	1,484	9	(568)	925	28
2005 and prior	**1,725**	**28**	**(282)**	**1,471**	**49**	2,397	13	(705)	1,705	44
Total Alt-A	**$ 3,523**	**$ 81**	**$ (457)**	**$ 3,147**	**100%**	$ 5,371	$ 43	$ (1,681)	$ 3,733	100%
Subprime										
2010	**$ -**	**$ -**	**$ -**	**$ -**	**-%**	$ -	$ -	$ -	$ -	-%
2009	**-**	**-**	**-**	**-**	**-**	-	-	-	-	-
2008	**-**	**-**	**-**	**-**	**-**	-	-	-	-	-
2007	**44**	**19**	**(5)**	**58**	**3**	61	16	(18)	59	4
2006	**111**	**9**	**(10)**	**110**	**9**	180	6	(42)	144	11
2005 and prior	**1,104**	**7**	**(307)**	**804**	**88**	1,358	-	(659)	699	85
Total Subprime	**$ 1,259**	**$ 35**	**$ (322)**	**$ 972**	**100%**	$ 1,599	$ 22	$ (719)	$ 902	100%
Prime non-agency[(b)]										
2010	**$ 20**	**$ -**	**$ (1)**	**$ 19**	**-%**	$ -	$ -	$ -	$ -	-%
2009	**97**	**-**	**-**	**97**	**2**	387	6	-	393	3
2008	**-**	**-**	**-**	**-**	**-**	109	9	-	118	1
2007	**1,097**	**19**	**(71)**	**1,045**	**21**	1,920	21	(340)	1,601	17
2006	**986**	**30**	**(89)**	**927**	**19**	2,259	91	(415)	1,935	20
2005 and	**3,024**	**66**	**(394)**	**2,696**	**58**	6,783	42	(1,272)	5,553	59

prior									
Total Prime non-agency	**$ 5,224**	**$ 115**	**$ (555)**	**$ 4,784**	**100%**	$ 11,458	$ 169	$ (2,027)	$ 9,600	100%

(a) *Includes $10.1 billion amortized cost and $10.5 billion fair value of agency backed securities.*

(b) *Includes foreign and jumbo RMBS-related securities.*

As of February 16, 2011, $941 million of RMBS was on watch by the rating agencies for downgrade.

In 2010 and 2009, AIG collected approximately $5.4 billion and $5.0 billion, respectively, of principal payments on RMBS. During 2010 AIG reduced its exposure to RMBS by approximately $9.0 billion.

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The following table presents AIG's RMBS investments by credit rating:

	December 31, 2010					December 31, 2009				
(in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Percent of Amortized Cost	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Percent of Amortized Cost
Rating:										
Total RMBS										
AAA	**$ 13,009**	**$ 477**	**$ (277)**	**$ 13,209**	**63%**	$ 20,503	$ 793	$ (1,256)	$ 20,040	64%
AA	**1,265**	**46**	**(274)**	**1,037**	**6**	1,547	22	(447)	1,122	5
A	**548**	**2**	**(144)**	**406**	**3**	1,423	6	(451)	978	4
BBB	**610**	**5**	**(113)**	**502**	**3**	1,428	30	(440)	1,018	5
Below investment grade	**5,209**	**170**	**(744)**	**4,635**	**25**	7,204	131	(2,245)	5,090	22
Non-rated	**20**	**-**	**(1)**	**19**	**-**	68	9	(1)	76	-
Total RMBS[(a)(b)]	**$ 20,661**	**$ 700**	**$ (1,553)**	**$ 19,808**	**100%**	$ 32,173	$ 991	$ (4,840)	$ 28,324	100%
Alt-A RMBS										
AAA	**$ 862**	**$ 1**	**$ (63)**	**$ 800**	**25%**	$ 1,707	$ 15	$ (406)	$ 1,316	32%
AA	**462**	**30**	**(89)**	**403**	**13**	296	-	(108)	188	5
A	**148**	**1**	**(41)**	**108**	**4**	247	-	(95)	152	5
BBB	**102**	**1**	**(15)**	**88**	**3**	141	3	(46)	98	3
Below investment grade	**1,949**	**48**	**(249)**	**1,748**	**55**	2,980	25	(1,026)	1,979	55
Non-rated	**-**	**-**	**-**	**-**	**-**	-	-	-	-	-
Total Alt-A	**$ 3,523**	**$ 81**	**$ (457)**	**$ 3,147**	**100%**	$ 5,371	$ 43	$ (1,681)	$ 3,733	100%
Subprime RMBS										
AAA	**$ 417**	**$ -**	**$ (63)**	**$ 354**	**33%**	$ 677	$ 13	$ (207)	$ 483	42%
AA	**259**	**15**	**(67)**	**207**	**21**	150	1	(70)	81	10
A	**108**	**1**	**(33)**	**76**	**9**	191	1	(107)	85	12
BBB	**78**	**-**	**(23)**	**55**	**6**	160	-	(99)	61	10
Below investment grade	**397**	**19**	**(136)**	**280**	**31**	421	7	(236)	192	26
Non-rated	**-**	**-**	**-**	**-**	**-**	-	-	-	-	-
Total Subprime	**$ 1,259**	**$ 35**	**$ (322)**	**$ 972**	**100%**	$ 1,599	$ 22	$ (719)	$ 902	100%
Prime non-agency										
AAA	**$ 1,564**	**$ 24**	**$ (89)**	**$ 1,499**	**30%**	$ 5,191	$ 40	$ (600)	$ 4,631	45%
AA	**502**	**1**	**(103)**	**400**	**10**	1,018	21	(258)	781	9
A	**221**	**-**	**(40)**	**181**	**4**	879	5	(187)	697	8
BBB	**338**	**4**	**(44)**	**298**	**7**	957	4	(225)	736	8
Below investment grade	**2,579**	**86**	**(278)**	**2,387**	**49**	3,345	90	(757)	2,678	29
Non-rated	**20**	**-**	**(1)**	**19**	**-**	68	9	-	77	1

Total prime non-agency	**$**	**5,224**	**$**	**115**	**$**	**(555)**	**$**	**4,784**	**100%**	$	11,458	$	169	$	(2,027)	$	9,600	100%

(a) *The weighted average expected life is 6 years.*

(b) *Includes $10.1 billion amortized cost and $10.5 billion fair value of agency backed securities.*

AIG's underwriting practices for investing in RMBS, other asset-backed securities and CDOs take into consideration the quality of the originator, the manager, the servicer, security credit ratings, underlying characteristics of the mortgages, borrower characteristics, and the level of credit enhancement in the transaction.

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American International Group, Inc., and Subsidiaries

Investments in Commercial Mortgage-Backed Securities (CMBS)

The following table presents the amortized cost, gross unrealized gains (losses) and fair value of AIG's CMBS investments:

	December 31, 2010					December 31, 2009				
(in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Percent of Amortized Cost	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Percent of Amortized Cost
CMBS (traditional)	**$ 6,428**	**$ 204**	**$ (919)**	**$ 5,713**	**88%**	$ 16,599	$ 161	$ (4,925)	$ 11,835	89%
ReRemic/CRE CDO	**508**	**23**	**(219)**	**312**	**7**	932	20	(578)	374	5
Agency	**297**	**13**	**(1)**	**309**	**4**	200	8	(3)	205	1
Other	**87**	**-**	**(10)**	**77**	**1**	986	6	(117)	875	5
Total	**$ 7,320**	**$ 240**	**$ (1,149)**	**$ 6,411**	**100%**	$ 18,717	$ 195	$ (5,623)	$ 13,289	100%

The following table presents AIG's CMBS investments by credit rating:

	December 31, 2010					December 31, 2009				
(in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Percent of Amortized Cost	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Percent of Amortized Cost
Rating:										
AAA	**$ 2,416**	**$ 88**	**$ (21)**	**$ 2,483**	**33%**	$ 8,579	$ 127	$ (997)	$ 7,709	45%
AA	**772**	**7**	**(94)**	**685**	**11**	2,265	2	(839)	1,428	12
A	**1,061**	**18**	**(100)**	**979**	**14**	1,967	13	(832)	1,148	11
BBB	**1,140**	**12**	**(302)**	**850**	**16**	2,188	15	(1,009)	1,194	12
Below investment grade	**1,931**	**115**	**(632)**	**1,414**	**26**	3,155	38	(1,844)	1,349	17
Non-rated	**-**	**-**	**-**	**-**	**-**	563	-	(102)	461	3
Total	**$ 7,320**	**$ 240**	**$ (1,149)**	**$ 6,411**	**100%**	$ 18,717	$ 195	$ (5,623)	$ 13,289	100%

The following table presents AIG's CMBS investments by year of vintage:

	December 31, 2010					December 31, 2009				
(in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Percent of Amortized Cost	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Percent of Amortized Cost
Year:										
2010	**$ 86**	**$ -**	**$ -**	**$ 86**	**1%**	$ -	$ -	$ -	$ -	-%
2009	**42**	**1**	**-**	**43**	**1**	35	-	(1)	34	-
2008	**217**	**8**	**(1)**	**224**	**3**	263	-	(70)	193	1
2007	**2,205**	**118**	**(484)**	**1,839**	**30**	4,968	42	(2,134)	2,876	27
2006	**1,158**	**48**	**(247)**	**959**	**16**	2,842	19	(1,250)	1,611	15
2005 and prior	**3,612**	**65**	**(417)**	**3,260**	**49**	10,609	134	(2,168)	8,575	57
Total	**$ 7,320**	**$ 240**	**$ (1,149)**	**$ 6,411**	**100%**	$ 18,717	$ 195	$ (5,623)	$ 13,289	100%

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The following table presents the percentage of AIG's CMBS investments by geographic region:

December 31,	2010	2009
Geographic region:		
New York	**17%**	15%
California	**12**	14
Texas	**6**	7
Florida	**6**	6
Virginia	**3**	3
Illinois	**3**	3
New Jersey	**3**	3
Georgia	**3**	2
Maryland	**2**	3
Pennsylvania	**2**	3
Nevada	**2**	2
Washington	**2**	2
All Other*	**39**	37
Total	**100%**	100%

* *Includes Non-U.S. locations.*

The following table presents the percentage of AIG's CMBS investments by industry:

December 31,	2010	2009
Industry:		
Office	**34%**	30%
Retail	**27**	30
Multi-family	**17**	15
Lodging	**8**	7
Industrial	**6**	7
Other	**8**	11
Total	**100%**	100%

There have been disruptions in the CMBS market due to weakness in underlying commercial real estate fundamentals and the market's anticipation of increasing delinquencies and defaults. Although the market value of the holdings has improved and CMBS spreads have tightened during 2010, it continues to be below amortized cost. The majority of AIG's investments in CMBS are in tranches that contain substantial protection features through collateral subordination. As indicated in the tables, downgrades have occurred on many CMBS holdings. The majority of CMBS holdings are traditional conduit transactions, broadly diversified across property types and geographical areas.

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American International Group, Inc., and Subsidiaries

Investments in CDOs

The following table presents AIG's CDO investments by collateral type:

	December 31, 2010					December 31, 2009				
(in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Percent of Amortized Cost	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Percent of Amortized Cost
Collateral Type:										
Bank loans (CLO)	$ **1,697**	$ **62**	$ **(321)**	$ **1,438**	**76%**	$ 2,015	$ 63	$ (596)	$ 1,482	66%
Synthetic investment grade	**78**	**102**	**(2)**	**178**	**4**	220	83	(21)	282	8
Other	**433**	**151**	**(52)**	**532**	**19**	772	74	(107)	739	25
Subprime ABS	**24**	**2**	**(12)**	**14**	**1**	33	1	(27)	7	1
Total	$ **2,232**	$ **317**	$ **(387)**	$ **2,162**	**100%**	$ 3,040	$ 221	$ (751)	$ 2,510	100%

The following table presents AIG's CDO investments by credit rating:

	December 31, 2010					December 31, 2009				
(in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Percent of Amortized Cost	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Percent of Amortized Cost
Rating:										
AAA	$ **27**	$ **-**	$ **(2)**	$ **25**	**1%**	$ 326	$ 5	$ (42)	$ 289	11%
AA	**133**	**1**	**(13)**	**121**	**6**	135	1	(29)	107	4
A	**558**	**17**	**(99)**	**476**	**25**	1,028	22	(311)	739	34
BBB	**787**	**21**	**(181)**	**627**	**35**	670	19	(214)	475	22
Below investment grade	**727**	**277**	**(92)**	**912**	**33**	879	155	(155)	879	29
Non-rated	**-**	**1**	**-**	**1**	**-**	2	19	-	21	-
Total	$ **2,232**	$ **317**	$ **(387)**	$ **2,162**	**100%**	$ 3,040	$ 221	$ (751)	$ 2,510	100%

Commercial Mortgage Loans

At December 31, 2010, AIG had direct U.S. commercial mortgage loan exposure of $13.8 billion. At that date, over 97 percent of the U.S. loans were current.

The following table presents the U.S. commercial mortgage loan exposure by state and type of loan:

At December 31, 2010 *(dollars in millions)*	**Number of Loans**	**Amount**	**Apartments**	**Offices**	**Retails**	**Industrials**	**Hotels**	**Others**	**Percent of Total**
State:									
California	196	$ 3,633	$ 113	$ 1,402	$ 214	$ 967	$ 407	$ 530	26%
New York	71	1,551	271	946	166	39	48	81	11
New Jersey	63	1,207	545	312	269	8	-	73	9
Florida	99	936	28	324	240	105	28	211	7

Texas	63	872	58	334	122	251	81	26	6
Pennsylvania	62	515	92	132	139	119	18	15	4
Ohio	59	429	165	46	98	68	40	12	3
Maryland	23	388	26	186	167	1	4	4	3
Arizona	17	322	103	55	60	9	9	86	2
Colorado	22	312	11	209	1	4	27	60	2
Other states	392	3,624	316	1,467	702	399	301	439	27
Total[(a)(b)]	1,067	$ 13,789	$ 1,728	$ 5,413	$ 2,178	$ 1,970	$ 963	$ 1,537	100%

(a) *Excludes portfolio valuation losses.*

(b) *Includes mezzanine loans.*

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MetLife and AIA Equity Investments

At December 31, 2010, AIG's equity method investments included a 33 percent interest in AIA with a total carrying value of $11.1 billion which is recorded in Other invested assets and accounted for under the fair value option. As part of the consideration on the sale of ALICO, AIG received approximately 78.2 million shares of MetLife, Inc. (MetLife) common stock, 6.9 million shares of newly issued MetLife participating preferred stock convertible into 68.6 million shares of MetLife common stock and 40.0 million equity units of MetLife with an aggregate carrying value of approximately $10 billion at December 31, 2010. The common stock and participating preferred stock are carried at fair value and reported in Common and preferred stocks trading. The equity units (described in more detail below) consist of debentures and a stock purchase contract. The debentures are carried at fair value and reported in Bonds available for sale. The stock purchase contract is carried at fair value and reported in Unrealized gain on swaps, options and forward transactions. Changes in the fair value of the stock purchase contract are reported in Net realized capital gains (losses) Changes in the fair values of all other components of the MetLife securities are reported in Net investment income.

The value of the AIA shares will fluctuate until the ultimate disposition by AIG of the AIA shares. The value of the AIA shares will rise and fall in response to various factors beyond the control of AIG, including the business and financial performance of AIA. The agreement with the underwriters precludes AIG from entering into hedging transactions that might protect AIG against fluctuations in the value of its remaining interest in AIA while those restrictions are in place.

Prior to conversion into MetLife common stock, the participating preferred stock will be entitled to dividends equivalent, on an as-converted basis, to those that may be declared from time to time on MetLife common stock.

Each of the equity units of MetLife has an initial stated amount of $75 and consists of an ownership interest in three series of debt securities of MetLife and three stock purchase contracts with a weighted average life of approximately three years. The stock purchase contracts obligate the holder of an equity unit to purchase, and obligate MetLife to sell, a number of shares of MetLife common stock that will be determined based on the market price of MetLife common stock at the scheduled settlement dates under the stock purchase contracts (a minimum of 67,764,000 shares and a maximum of 84,696,000 in the aggregate for all equity units, subject to anti-dilution adjustments). The equity units provide for the remarketing of the senior debt securities to fund the purchase price of the MetLife common stock. They also entitle the holder to receive interest payments on the senior debt securities and deferrable contract payments at a combined rate equal to five percent of their stated amount. The equity units have been placed in escrow as collateral to secure payments, if any, in respect of indemnity agreements. The escrow collateral will be released to the ALICO SPV over a 30-month period, to the extent not used to make indemnity payments or to secure pending indemnity claims submitted by MetLife.

The value of the MetLife securities received in the sale of ALICO will continue to fluctuate until the ultimate monetization by AIG of the MetLife securities. These fluctuations will be influenced by market prices of MetLife securities generally, and the market prices of MetLife common stock in particular, which will rise and fall in response to various factors beyond the control of AIG, including the business and financial performance of MetLife. AIG is subject in each case to the agreed minimum holding periods that also restrict AIG's ability to enter into hedging transactions that might protect AIG against fluctuations in the value of the securities. These minimum holding periods and hedging restrictions cannot be altered without the consent of MetLife, so AIG will bear the risk of these market price fluctuations during the applicable holding period.

Other-Than-Temporary Impairments

As a result of AIG's periodic evaluation of its securities for other-than-temporary impairments in value, AIG recorded impairment charges in earnings of $3.0 billion, $6.7 billion and $41.9 billion in 2010, 2009, and 2008, respectively. Refer to Note 7 to the Consolidated Financial Statements for a discussion of AIG's other-than-temporary impairment accounting policy.

The following table presents other-than-temporary impairment charges in earnings by segment:

(in millions)	General Insurance	Domestic Life Insurance & Retirement Services	Financial Services	Other	Total
December 31, 2010					
Impairment Type:					
Severity	**$ 30**	**$ 14**	**$ -**	**$ 29**	**$ 73**
Change in intent	**389**	**34**	**-**	**18**	**441**
Foreign currency declines	**17**	**-**	**-**	**46**	**63**
Issuer-specific credit events	**141**	**1,906**	**10**	**400**	**2,457**
Adverse projected cash flows on structured securities	**-**	**4**	**-**	**1**	**5**
Total	**$ 577**	**$ 1,958**	**$ 10**	**$ 494**	**$ 3,039**
December 31, 2009					
Impairment Type:					
Severity	$ 118	$ 829	$ -	$ 563	$ 1,510
Change in intent	186	656	-	116	958
Foreign currency declines	9	-	-	103	112
Issuer-specific credit events	589	2,260	-	1,130	3,979
Adverse projected cash flows on structured securities	1	76	-	60	137
Total	$ 903	$ 3,821	$ -	$ 1,972	$ 6,696
December 31, 2008					
Impairment Type:					
Severity	$ 2,367	$ 17,799	$ -	$ 3,047	$ 23,213
Change in intent	372	9,043	-	1,391	10,806
Foreign currency declines	-	-	-	1,356	1,356
Issuer-specific credit events	1,305	2,160	-	1,409	4,874
Adverse projected cash flows on structured securities	7	1,462	-	149	1,618
Total	$ 4,051	$ 30,464	$ -	$ 7,352	$ 41,867

American International Group, Inc., and Subsidiaries

The following table presents other-than-temporary impairment charges in earnings by type of security and type of impairment:

(in millions)	RMBS	CDO/ABS	CMBS	Other Fixed Income	Equities/Other Invested Assets*	Total
December 31, 2010						
Impairment Type:						
Severity	**$ -**	**$ -**	**$ -**	**$ -**	**$ 73**	**$ 73**
Change in intent	**210**	**-**	**99**	**41**	**91**	**441**
Foreign currency declines	**-**	**5**	**-**	**57**	**1**	**63**
Issuer-specific credit events	**1,066**	**34**	**739**	**81**	**537**	**2,457**
Adverse projected cash flows on structured securities	**5**	**-**	**-**	**-**	**-**	**5**
Total	**$ 1,281**	**$ 39**	**$ 838**	**$ 179**	**$ 702**	**$ 3,039**
December 31, 2009						
Impairment Type:						
Severity	$ 816	$ 471	$ 21	$ 26	$ 176	$ 1,510
Change in intent	19	8	44	715	172	958
Foreign currency declines	-	21	-	91	-	112
Issuer-specific credit events	1,929	306	451	301	992	3,979
Adverse projected cash flows on structured securities	102	35	-	-	-	137
Total	$ 2,866	$ 841	$ 516	$ 1,133	$ 1,340	$ 6,696
December 31, 2008						
Impairment Type:						
Severity	$ 14,125	$ 2,697	$ 3,831	$ 1,767	$ 793	$ 23,213
Change in intent	5,064	435	441	4,031	835	10,806
Foreign currency declines	-	64	-	960	332	1,356
Issuer-specific credit events	1,916	92	238	1,257	1,371	4,874
Adverse projected cash flows on structured securities	1,595	23	-	-	-	1,618
Total	$ 22,700	$ 3,311	$ 4,510	$ 8,015	$ 3,331	$ 41,867

* *Includes other-than-temporary impairment charges on partnership investments and direct private equity investments.*

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The following table presents other-than-temporary impairment charges in earnings by type of security and credit rating:

(in millions)	RMBS	CDO/ABS	CMBS	Other Fixed Income	Equities/Other Invested Assets*	Total
December 31, 2010						
Rating:						
AAA	**$ 28**	**$ -**	**$ -**	**$ 19**	**$ -**	**$ 47**
AA	**39**	**1**	**2**	**-**	**-**	**42**
A	**61**	**3**	**13**	**16**	**45**	**138**
BBB	**65**	**3**	**55**	**28**	**6**	**157**
Below investment grade	**1,088**	**27**	**768**	**103**	**6**	**1,992**
Non-rated	**-**	**5**	**-**	**13**	**645**	**663**
Total	**$ 1,281**	**$ 39**	**$ 838**	**$ 179**	**$ 702**	**$ 3,039**
December 31, 2009						
Rating:						
AAA	$ 781	$ 20	$ 43	$ -	$ -	$ 844
AA	358	16	56	21	-	451
A	230	338	60	242	-	870
BBB	258	108	116	254	-	736
Below investment grade	1,239	328	241	595	-	2,403
Non-rated	-	31	-	21	1,340	1,392
Total	$ 2,866	$ 841	$ 516	$ 1,133	$ 1,340	$ 6,696
December 31, 2008						
Rating:						
AAA	$ 13,834	$ 586	$ 2,489	$ 137	$ -	$ 17,046
AA	4,048	686	633	545	-	5,912
A	1,789	1,446	1,042	1,907	-	6,184
BBB	974	415	252	1,398	-	3,039
Below investment grade	1,995	107	94	3,760	-	5,956
Non-rated	60	71	-	268	3,331	3,730
Total	$ 22,700	$ 3,311	$ 4,510	$ 8,015	$ 3,331	$ 41,867

* *Includes other-than-temporary impairment charges on partnership investments and direct private equity investments.*

With the adoption of the new other-than-temporary impairments accounting standard on April 1, 2009, severity loss charges subsequent to that date exclusively related to equity securities and other invested assets. In all prior periods, these charges primarily related to mortgage-backed, asset-backed and collateralized securities, corporate debt securities of financial institutions and other equity securities. Notwithstanding AIG's intent and ability to hold such securities until they had recovered their cost or amortized cost basis, and despite structures that indicated, at the time, that a substantial amount of the securities should have continued to perform in accordance with original terms, AIG concluded, at the time, that it could not reasonably assert that the impairment would be temporary.

Determinations of other-than-temporary impairments are based on fundamental credit analyses of individual securities without regard to rating agency ratings. Based on this analysis, AIG expects to receive cash flows sufficient to cover the amortized cost of all below investment grade securities for which credit losses were not recognized.

In addition to the severity losses, AIG recorded other-than-temporary impairment charges in 2010, 2009 and 2008 related to:

- securities for which AIG has changed its intent from hold to sell;
- declines due to foreign exchange rates;
- issuer-specific credit events;
- certain structured securities; and
- other impairments, including equity securities, partnership investments and private equity investments.

AIG recognized $441 million, $958 million and $10.8 billion in other-than-temporary impairment charges in 2010, 2009, and 2008, respectively, due to changes in intent. The other-than-temporary impairment charges in 2010 related to changes in intent resulting from the repositioning of certain investments, primarily within the Chartis portfolios.

With respect to the issuer-specific credit events shown above, no other-than-temporary impairment charge with respect to any one single credit was significant to AIG's consolidated financial condition or results of operations, and no individual other-than-temporary impairment charge exceeded 0.2 percent, 0.1 percent and 1.0 percent of total equity in 2010, 2009 and 2008, respectively.

In periods subsequent to the recognition of an other-than-temporary impairment charge for available for sale fixed maturity securities that is not foreign exchange related, AIG generally prospectively accretes into earnings the difference between the new amortized cost and the expected undiscounted recovery value over the remaining expected holding period of the security. The amounts of accretion recognized in earnings for 2010, 2009 and 2008 were $401 million, $735 million and $634 million, respectively. For a discussion of recent accounting standards affecting fair values and other-than-temporary impairments, see Notes 2 and 7 to the Consolidated Financial Statements.

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American International Group, Inc., and Subsidiaries

An aging of the pre-tax unrealized losses of fixed maturity and equity securities, distributed as a percentage of cost relative to unrealized loss (the extent by which the fair value is less than amortized cost or cost), including the number of respective items was as follows:

At December 31, 2010	**Less than or equal to 20% of Cost**[(b)]			**Greater than 20% to 50% of Cost**[(b)]			**Greater than 50% of Cost**[(b)]			**Total**		
Aging[(a)] **(dollars in millions)**	**Cost**[(c)]	**Unrealized Loss**	**Items**[(e)]	**Cost**[(c)]	**Unrealized Loss**	**Items**[(e)]	**Cost**[(c)]	**Unrealized Loss**	**Items**[(e)]	**Cost**[(c)]	**Unrealized Loss**[(d)]	**Items**[(e)]
Investment grade bonds												
0-6 months	$ 35,727	$ 934	3,246	$ 31	$ 11	9	$ 145	$ 73	8	$ 35,903	$ 1,018	3,263
7-12 months	928	54	143	17	4	3	3	-	61	948	58	207
> 12 months	12,563	880	1,349	3,246	953	413	569	364	99	16,378	2,197	1,861
Total	$ 49,218	$ 1,868	4,738	$ 3,294	$ 968	425	$ 717	$ 437	168	$ 53,229	$ 3,273	5,331
Below investment grade bonds												
0-6 months	$ 1,160	$ 47	257	$ 3	$ 1	8	$ 1	$ -	35	$ 1,164	$ 48	300
7-12 months	102	7	29	67	21	11	4	2	38	173	30	78
> 12 months	4,257	391	445	2,556	815	266	858	527	175	7,671	1,733	886
Total	$ 5,519	$ 445	731	$ 2,626	$ 837	285	$ 863	$ 529	248	$ 9,008	$ 1,811	1,264
Total bonds												
0-6 months	$ 36,887	$ 981	3,503	$ 34	$ 12	17	$ 146	$ 73	43	$ 37,067	$ 1,066	3,563
7-12 months	1,030	61	172	84	25	14	7	2	99	1,121	88	285
> 12 months	16,820	1,271	1,794	5,802	1,768	679	1,427	891	274	24,049	3,930	2,747
Total[(e)]	$ 54,737	$ 2,313	5,469	$ 5,920	$ 1,805	710	$ 1,580	$ 966	416	$ 62,237	$ 5,084	6,595
Equity securities												
0-6 months	$ 601	$ 31	105	$ 65	$ 17	16	$ -	$ -	-	$ 666	$ 48	121
7-12 months	32	5	89	10	2	24	-	-	-	42	7	113
> 12 months	-	-	-	-	-	-	-	-	-	-	-	-
Total	$ 633	$ 36	194	$ 75	$ 19	40	$ -	$ -	-	$ 708	$ 55	234

(a) *Represents the number of consecutive months that fair value has been less than cost by any amount.*

(b) *Represents the percentage by which fair value is less than cost at December 31, 2010.*

(c) *For bonds, represents amortized cost.*

(d) *The effect on Net income of unrealized losses after taxes will be mitigated upon realization because certain realized losses will be charged to participating policyholder accounts, or realization will result in current decreases in the amortization of certain DAC.*

(e)
Item count is by CUSIP by subsidiary.

For 2010, net unrealized gains related to fixed maturity and equity securities increased by $9.1 billion primarily resulting from the narrowing of credit spreads.

As of December 31, 2010, the majority of AIG's fixed maturity investments in an unrealized loss position of more than 50 percent for more than 12 months, consisted of the unrealized loss of $891 million related to CMBS and RMBS securities originally rated investment grade that are floating rate or that have low fixed coupons relative to current market yields. A total of 99 securities with an amortized cost of $569 million and a net unrealized loss of $364 million are still investment grade. As part of its credit evaluation procedures applied to these and other securities, AIG considers the nature of both the specific securities and the market conditions for those securities. For most security types supported by real estate-related assets, current market yields continue to be higher than the yields were at the respective issuance dates of the securities. This is largely due to investors demanding additional yield premium for securities whose performance is closely linked to the commercial and residential real estate sectors. In addition, for floating rate securities, persistent low LIBOR levels continue to make these securities less attractive.

AIG believes that the lack of demand for commercial and residential real estate collateral-based securities, low contractual coupons and interest rate spreads, and the deterioration in the level of collateral support due to real estate market conditions are the primary reasons for these securities trading at significant price discounts. Based

on its analysis, and taking into account the level of subordination below these securities, AIG continues to believe that the expected cash flows from these securities will be sufficient to recover the amortized cost of its investment. AIG continues to monitor these positions for potential credit impairments that could result from further deterioration in commercial and residential real estate fundamentals.

See Note 7 to the Consolidated Financial Statements for further discussion of AIG's investment portfolio.

Enterprise Risk Management

Overview

AIG has an integrated process for managing risks throughout the organization. AIG conducts risk management functions through its Enterprise Risk Management (ERM) Department in conjunction with the Company's business units, Asset Management Group and Treasury Department.

Ultimate oversight of risk management is conducted by the Board of Directors (the Board). AIG's Chief Risk Officer (AIG CRO) provides reports to the Board and various of its committees on AIG's risk-taking policies and risk tolerances, as well as AIG's exposure to various risks.

AIG's risk management in each business unit begins with senior business leaders and executives. The AIG Group Risk Committee (GRC) is AIG's senior risk management oversight body, comprised of AIG's executive officers.

Risk management is embedded in the day-to-day activities of each business unit. Senior leaders and executives for each unit approve risk-taking policies and targeted risk tolerance within the framework provided by ERM.

Risk Oversight

At the corporate level, AIG's major risks are addressed through ERM, which is headed by the AIG CRO, who, in turn, reports to the Executive Vice President Finance, Risk & Investments. ERM is responsible for assisting AIG's business leaders and executive management in identifying, assessing, quantifying, managing and mitigating the risks incurred by AIG. Throughout 2010, AIG continued to enhance its risk management functions at the corporate and individual business levels. A new AIG CRO was appointed in late 2010.

An important goal of ERM is to ensure that, after appropriate governance, authorities, procedures and policies have been established, aggregated risks do not result in inappropriate concentrations. Senior management defines the policies and has established general operating parameters for its global businesses and various oversight committees to monitor the risks attendant to its businesses. A number of transactional and policy-setting committees and working groups as well as business unit risk and capital committees report to the GRC, including the Credit Risk Committee (CRC), Liquidity Risk Committee (LRC), Complex Structured Finance Transaction Committee (CSFTC) and Global and Regional Pricing Committees.

The GRC is responsible for ensuring that AIG has a solid foundation for risk management in application of strategic risk tolerance limits. The mandate of the GRC is to ensure that AIG's financial strength is protected and that business decisions are governed by overarching consideration of maximizing intrinsic value and risk-adjusted return.

The CRC is responsible for approving credit risk policies and procedures for use throughout AIG and delegating credit authority to business unit credit officers and select business unit managers. In addition, the CRC approves transactions and limits that exceed delegated authorities and reviews all credit concentration risks.

The LRC is responsible for liquidity policy and implementation at AIG Parent and exercises oversight and control of liquidity policies at each AIG entity. See Capital Resources and Liquidity herein.

The CSFTC has the authority and responsibility to review and approve any proposed CSFT, defined as any AIG transaction or product that may involve a heightened legal, regulatory, accounting or reputational risk that is developed, marketed or proposed by AIG or a third-party. The CSFTC provides guidance to and monitors the activities of transaction review committees (TRCs) which have been established in all major business units. TRCs have the responsibility to identify, review and refer CSFTs to the CSFTC.

The Global Pricing Committee provides oversight of AIG's pricing valuation practices and processes and has delegated operational responsibility to the Regional Pricing Committees to implement and monitor these practices within the underlying businesses of each respective region.

AIG has steering committees overseeing the wind-down of the real estate and Capital Markets portfolios. Derivatives risk, foreign currency exposures and operational risk are monitored and addressed by various committees and working groups.

AIG has also instituted a monthly business review process whereby senior corporate and business management discuss operating performance and review issues including risks affecting the business. AIG continues to develop

and implement risk mitigation strategies and reduce its exposures in accordance with GRC-approved tolerances. Implementation of such strategies has resulted in:

- reduced exposure to natural catastrophes and modification of reinsurance programs at Chartis;
- reduced asset / liability mismatch at Chartis;
- tightening credit criteria and improving claims management at UGC; and
- product design innovations to meet customer needs while simultaneously reducing risk to SunAmerica.

Business Unit Risk Governance

AIG has also continued to strengthen the risk management, governance, structure and processes at the individual business unit levels, including hiring additional risk management professionals. During 2010, AIG hired CROs for Chartis, SunAmerica and Investments & Financial Services, all of whom report to the AIG CRO and their respective business unit chief executive officer.

The risk management framework of AIG's major business units is consistent with that of AIG and articulates risk strategy and governance within the business units in support of their strategic objectives. The business units' risk governance structure encompasses the roles and responsibilities of all functions and businesses in the major business entities, and in the case of Chartis, the geographic regions in which it operates. The major business units' enterprise risk management organizations are headed by their respective CROs. The business units have significantly expanded their risk management resources, including risk subject matter experts.

The following committees are responsible for managing risks at the business unit level:

- Chartis Risk & Capital Committee   The Chartis Risk and Capital Committee (RCC) is co-chaired by the Chartis CRO and chief financial officer. Its scope includes all sources of risk, including emerging and catastrophic risks, and its specific responsibilities include setting risk tolerance, approving capital management strategies, insurance portfolio optimization and strategic asset allocation and risk financing and providing oversight on economic capital modeling and risk identification, assessment and control. Similar committees exist within major geographic regions and report directly or indirectly to the Chartis RCC.

- Chartis Asset and Liability Committee   Chartis asset and liability management is overseen by two committees   the Asset Liability Investment Committee (ALIC) and the Asset Liability Finance Committee (ALFC). ALIC is chaired by the Chartis chief investment officer and ALFC by the Chartis chief financial officer, each of whom is a member of both committees.

- SunAmerica Financial Group Risk & Capital Committee   The SunAmerica Financial Group Risk and Capital Committee (RCC) is co-chaired by the SunAmerica CRO and the SunAmerica CEO. It is responsible for all types of risk and its specific responsibilities include, but are not limited to, approving significant risk assessment and risk management policies, approving aggregate and specific risks, reviewing the current and anticipated capitalization, cash flow, liquidity, and earnings, and the related risk, and approving strategic and financial initiatives and activities as recommended by the business units and functional groups. The RCC has various subcommittees focusing on specific risk areas, including an Asset and Liability Committee, Operational Risk Committee, the Product Pricing Committee, and Investment Committee.

- UGC Risk Committee is chaired by the United Guaranty CRO and is responsible for UGC's risk management framework to set the policies and guiding principles for managing risk. The Risk Committee meets monthly to evaluate the risk monitoring

reports and tools employed by UGC.

Defined Risk Tolerance and Enhanced Risk Identification

During 2010, AIG enhanced its risk tolerance framework with clearly-articulated tolerances for key risks at the group and business unit levels using its enhanced scenario-related stress testing framework.

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The stress testing framework allows AIG to aggregate exposures comprehensively across the organization and takes into consideration statutory and rating agency capital and legal entity fungibility constraints. Its enhanced stress testing process also allowed AIG to develop a parental liquidity framework that is tailored to business-unit specific risks and embedded in day-to-day risk management. In 2011, AIG plans to roll out an organization-wide vulnerability identification process to facilitate the escalation of potential new or emerging risks to management by employees.

The major risks to which AIG is exposed include the following:

Credit risk the potential loss arising from an obligor's inability or unwillingness to meet its obligations to AIG.

Market risk the potential loss arising from adverse fluctuations in interest rates, foreign currencies, equity and commodity prices, and their levels of volatility. Market risk includes credit spread risk, the potential loss arising from adverse fluctuations in credit spreads of securities or counterparties.

Operational risk the potential loss resulting from inadequate or failed internal processes, people, and systems, or from external events.

Liquidity risk the potential inability to meet all payment obligations when they become due.

General insurance risk the potential loss resulting from inadequate premiums, insufficient reserves and catastrophic exposures.

Life insurance risk the potential loss resulting from experience deviating from expectations for mortality, morbidity and termination rates in the insurance-oriented products and insufficient cash flows to cover contract liabilities in the retirement savings products.

AIG is also exposed to reputational risk, which is the risk of direct loss or loss in future business because of damage to AIG's reputation. Damage to the company's reputation can arise from a large number of issues, including potential conflicts of interest; legal and regulatory requirements; ethical issues; and sales and trading practices. In addition, reputational risk can be both the cause of or result from the major risks outlined above.

Credit Risk Management

AIG devotes considerable resources to managing its direct and indirect credit exposures, such as those arising from fixed income investments, deposits, corporate and consumer loans, leases, reinsurance recoverables, counterparty risk in derivatives activities, cessions of insurance risk to reinsurers and customers, credit risk assumed through credit derivatives written, financial guarantees and letters of credit. Credit risk is defined as the risk that AIG's customers or counterparties are unable or unwilling to repay their contractual obligations when they become due. Credit risk may also be manifested: (i) through the downgrading of credit ratings of counterparties whose credit instruments AIG may be holding, or, in some cases, insuring, causing the value of the assets to decline or insured risks to rise; and (ii) as cross-border risk where a country (sovereign government risk) or one or more non-sovereign obligors within a country are unable or unwilling to repay an obligation or are unable or unwilling to provide foreign exchange to service a credit or equity exposure incurred by another AIG business unit located outside that country.

AIG's credit risks are managed at the corporate level by the AIG Credit Risk Management (CRM) department whose primary role is to support and supplement the work of the businesses and the CRC. CRM is headed by AIG's Chief Credit Officer (CCO), who reports to AIG's CRO. AIG's CCO is primarily responsible for the development and maintenance of credit risk policies and procedures approved by the CRC. In discharging this function CRM has the following responsibilities:

approve delegated credit authorities to CRM credit executives and business unit credit officers;

manage the approval process for all requests for credit limits, program limits and credit transactions above delegated authorities;

aggregate globally all credit exposure data by counterparty, country and industry and report risk concentrations regularly to and review with the CRC and the Finance and Risk Management Committee of the Board of Directors;

administer regular portfolio credit reviews of all investment, derivative and credit-incurring business units and recommend any corrective actions where required;

develop methodologies for quantification and assessment of credit risks, including the establishment and maintenance of AIG's internal risk rating process; and

approve appropriate credit reserves and methodologies at the business unit and enterprise levels.

The CRC also approves concentration limits on U.S. and international business unit consumer loan portfolios, including the mortgage insurance activities of UGC. In addition, the CRC is also responsible for establishing concentration limits on Asset Management Group's exposures in U.S. and international RMBS, CMBS and CDOs. See Investments herein for a discussion of these exposures.

AIG monitors and controls its company-wide credit risk concentrations and attempts to avoid unwanted or excessive risk accumulations, whether funded or unfunded. To minimize the level of credit risk in certain circumstances, AIG may require third-party guarantees, reinsurance or collateral, such as letters of credit and trust accounts. These guarantees, reinsurance recoverable, letters of credit and trust accounts are also treated as credit exposure and are added to AIG's risk concentration exposure data.

AIG defines its aggregate credit exposures to a counterparty as the sum of its fixed maturities, loans, finance leases, reinsurance recoverables, derivatives (mark-to-market), deposits, reverse repurchase agreements, collateral extended to counterparties and letters of credit (in the case of financial institutions) and the specified credit equivalent exposure to certain insurance products which embody credit risk.

The following table presents AIG's largest credit exposures as a percentage of Total equity:

At December 31, 2010 **Category**	**Risk Rating**[(a)]	**Credit Exposure as a Percentage of Total Equity**[(b)]
Investment Grade:		
10 largest combined[(c)]	A+	84.4%[(d)]
Single largest financial institution	AA-	4.8
Single largest corporate	AAA	2.9
Single largest sovereign	AAA	21.3
Non-Investment Grade:		
Single largest financial institution	BB-	0.3
Single largest corporate	BB	0.6
Single largest sovereign	BB	0.1

(a) *Reflects AIG's internal risk ratings.*

(b) *Amounts shown include AIG Star, AIG Edison and Nan Shan which were held for sale at December 31, 2010.*

(c) *Six of the ten largest credit exposures are to financial institutions, three are to investment-grade rated sovereigns and one is to an AAA-rated corporate. Based on support from the U.S. Government, the exposure to government-sponsored entities (GSEs) and to mortgage-backed securities*

guaranteed by the GSEs is included in the U.S. Government total, rather than in financial institutions. None of the top ten is rated lower than BBB- or its equivalent.

(d) *Exposure to the ten largest combined as a percentage of Total equity declined from 123.9 percent at September 30, 2010, primarily due to the deconsolidation of AIA and sale of ALICO.*

AIG monitors its aggregate cross-border exposures by country and regional group of countries. AIG includes in its cross-border exposures both aggregated cross-border credit exposures to unrelated third parties, its cross-border investments in its own international subsidiaries and operating aircraft leases. Eight countries have cross-border exposures in excess of 10 percent of Total equity at December 31, 2010. Based on AIG's internal risk ratings, as of

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December 31, 2010, six countries were rated AAA and two were rated AA. The two largest cross-border exposures are to the United Kingdom and France.

In addition, AIG reviews and manages its industry concentrations. AIG's single largest industry credit exposure is to the global financial institutions sector, which includes banks and finance companies, securities firms and insurance and reinsurance companies. These exposures include fixed income securities, operating account balances, deposit placements, reverse repurchase agreements, the mark-to-market and potential future exposure to derivative exposures, collateral placed with counterparties, letters of credit received as collateral to insurance programs and credit exposure to captive insurance programs.

The following table presents AIG's largest credit exposures to the global financial institution sector as a percentage of Total equity:

At December 31, 2010	Credit Exposure as a Percentage of Total Equity[(a)]
Industry Category:	
Money center / Global bank groups	54.9%[(b)]
European regional financial institutions	11.1
Global reinsurance companies	10.4
Global life insurance companies	9.5
North American based regional financial institutions	6.1
Global non-life insurance companies	4.6
Global securities companies	4.3
Supranational Banks	4.2

(a) *Amounts shown include AIG Star, AIG Edison, and Nan Shan which were held for sale at December 31, 2010.*

(b) *Exposure to Money Center/Global Bank Groups as a percentage of Total equity declined from 74.6 percent at September 30, 2010, primarily as a result of the deconsolidation of AIA and sale of ALICO.*

AIG's exposure to its five largest money center/global bank group institutions was 21.4 percent of Total equity at December 31, 2010 compared to 33.5 percent of Total equity at December 31, 2009.

AIG also has a risk concentration through the investment portfolios of its insurance companies in the U.S. municipal sector. AIG holds approximately $45.6 billion (amortized cost) of tax-exempt and taxable securities, $5.9 billion of which are pre-refunded, issued by a wide number of municipal authorities across the U.S. and its territories. A majority of these securities are held in available-for-sale portfolios of AIG's domestic property-casualty insurance companies. These securities are comprised of the general obligations of states and local governments, revenue bonds issued by these same governments and bonds issued by transportation authorities, universities, state housing finance agencies and hospital systems. The weighted average credit quality of these issuers is A. AIG has $985 million of additional exposure to the municipal sector outside of its insurance company portfolios.

Currently, several states, local governments and other issuers are facing pressures on their budgets from the effects of the recession and have had to cut spending, raise taxes and fees and draw on reserve funds. Consequently, several municipal issuers in AIG's portfolios have been downgraded one or more notches by the major nationally recognized statistical rating agencies. The most notable of these issuers is the State of California, of which AIG holds approximately $748.1 million of general obligation bonds, $44.9 million of which are pre-refunded, and the state of Illinois, of which AIG holds approximately $238 million, $69 million of which are pre-refunded.

AIG has credit exposure to several European sovereign governments whose ratings have been downgraded or placed under review in recent months by one or more major rating agencies. The downgrades primarily reflect the large government budget deficits and rising government debt to GDP ratios of these countries. At December 31, 2010, AIG's exposure to the governments of Portugal, Ireland, Italy, Spain and Hungary, amounted to $1.1 billion. Four of these five governments experienced rating downgrades during 2010.

See also Investments herein for further information.

The CRC reviews quarterly concentration reports in all categories listed above as well as credit trends by risk ratings. The CRC periodically adjusts limits to provide reasonable assurance that AIG does not incur excessive levels of credit risk and that AIG's credit risk profile is properly calibrated across business units.

Market Risk Management

AIG is exposed to market risks, primarily within its insurance and capital markets businesses (see Capital Resources and Liquidity   Financial Services   Capital Markets Wind-down regarding its market risk issues and management as transactions in that business are wound down). For AIG's insurance operations, the asset-liability exposures are predominantly structural in nature, and not the result of speculative positioning to take advantage of short-term market opportunities. For example, the business model of life insurance and retirement savings is to collect premiums or deposits from policyholders and invest the proceeds in predominantly long-term, credit based assets. A spread is earned over time between the asset yield and the cost payable to policyholders. The asset and liability profiles are managed so that the cash flows resulting from invested assets are sufficient to meet policyholder obligations when they become due without the need to sell assets prematurely into a potentially distressed market. In periods of severe market volatility, depressed and illiquid market values on otherwise performing investments diminish shareholders' equity even without the realization of actual credit event related losses. Such diminution of capital strength has caused downward pressure on the market's assessment of the financial strength and the credit ratings of insurers.

The Market Risk Management and Independent Valuation function (MRMIV), which reports to the CRO, is responsible for control and oversight of all frequently traded market risks within AIG. The Insurance Risk Management function (IRM), which also reports to the CRO, is responsible for control and oversight of non-frequently traded asset liability management risks and risk aggregation across AIG's financial services, insurance, and investment activities.

AIG's market exposures can be categorized as follows:

Benchmark interest rates. Benchmark interest rates are also known as risk-free interest rates and are associated with either the government / treasury yield curve or the swap curve. The fair value of AIG's significant fixed maturity securities portfolio changes as benchmark interest rates change.

Credit spread or risk premium. Credit spread risk is the potential for loss due to a change in an instrument's risk premium or yield relative to that of a comparable-duration, default-free instrument.

Equity and alternative investment prices. AIG's exposure to equity and alternative investment prices arises from direct investments in common stocks and mutual funds, from minimum benefit guarantees embedded in the structure of certain variable annuity and variable life insurance products and from other equity-like investments, such as partnerships comprised of hedge funds and private equity funds, private equity investments, commercial real estate and real estate funds.

Foreign currency exchange rates. AIG is a globally diversified enterprise with significant income, assets and liabilities denominated in, and significant capital deployed in, a variety of currencies.

AIG uses a number of measures and approaches to measure and quantify its market risk exposure, including:

Duration / key rate duration. Duration is the measure of the sensitivities of a fixed-income instrument to the parallel shift in the benchmark yield curve. Key rate duration measures sensitivities to the movement at a given term point on the yield curve.

Scenario analysis. Scenario analysis uses historical, hypothetical, or forward-looking macro-economic scenarios to assess and report exposures. Examples of hypothetical scenarios include a 100 basis point parallel shift in the yield curve or a 10 percent immediate and simultaneous decrease in world-wide equity markets.

Value-at-Risk (VaR). VaR is a summary statistical measure that uses the estimated volatility and correlation of market factors to calculate the maximum loss that could occur over a defined period of time with a specified level of statistical confidence. VaR measures not only the size of individual exposures but also the interaction between different market exposures, thereby providing a portfolio approach to measuring market risk. A key shortcoming of the VaR approach is its reliance on historical data, making VaR calculations essentially "backward looking." This shortcoming was most evident during the recent credit crisis.

Stress testing. Stress testing is a special form of scenario analysis whereby the scenarios used are designed to lead to a material adverse outcome (for example, the stock market crash of October 1987 or the widening of yields or spread of RMBS or CMBS during 2008). Stress testing is often used to address VaR shortcomings and complement VaR calculations. Particularly in times of significant volatility in financial markets, using stress scenarios provides more pertinent and forward-looking information on market risk exposure than VaR results based upon historical data alone.

Insurance Assets and Aircraft Leasing Sensitivities

The following table provides estimates of AIG's sensitivity to changes in yield curves, equity prices and foreign currency exchange rates:

As of December 31,	**Exposure**			**Effect**	
(dollars in millions)	**2010**	**2009**	**Sensitivity Factor**	**2010**	**2009**
Yield sensitive assets	**$ 403,500**	$ 524,000	100 bps parallel increase in all yield curves	**$ (19,700)**	$ (26,200)
Equity and alternative investments exposure	**$ 54,300**	$ 44,000	20% decline in stock prices and value of alternative investments	**$ (10,861)**	$ (8,800)
Foreign currency exchange rates net exposure	**$ 6,200**	$ 22,000	10% depreciation of all foreign currency exchange rates against the U.S. dollar	**$ (620)**	$ (2,200)

Exposures to yield curves include assets that are directly sensitive to yield curve movements, such as fixed maturity securities, loans, finance receivables and short-term investments (excluding consolidated separate account assets). Exposures to equity and alternative investment prices include investments in common stocks, preferred stocks, mutual funds, hedge funds, private equity funds, commercial real estate and real estate funds (excluding consolidated separate account assets and consolidated managed partnerships and funds). Exposures to foreign currency exchange rates reflect AIG's consolidated non-U.S. dollar net capital investments on a GAAP basis, net of Nan Shan DAC adjustment. Comparisons of 2010 exposures to 2009 are as follows:

total-yield sensitive assets decreased by 23 percent ($121 billion) compared to 2009. This decrease is primarily due to the divestitures of ALICO, AIA, AGF, and CFG, totaling ($152 billion), and is partially offset by an increase in asset prices of $10 billion as well as new investments of $23 billion.

total equity and alternative investments increased 22 percent ($10.0 billion) compared to 2009. The increase is primarily due to (1) the inclusion of AIG's remaining stake in the AIA SPV (33 percent, or $11.1 billion) in All Other investments; (2) the inclusion of AIG's stake in the ALICO SPV ($6.5 billion) in common and preferred stocks trading at fair value; and (3) rallying world equity markets in the third quarter of 2010, which lifted the value of common and preferred equity holdings available for sale by approximately $2.0 billion. The increase was partly offset by the exclusion of AIA's common and preferred equity holdings available for sale ($6.4 billion), AIA's mutual fund investments ($1.2 billion), and AIA's and ALICO's real estate investments ($1.0 billion and $800 million, respectively). AIRCO's real estate investments decreased by approximately $500 million.

the $15.6 billion decrease in foreign currency exchange rates net exposure is primarily due to the deconsolidation of AIA and sale of ALICO.

The above changes of a 100 basis point increase in yield curves, a 20 percent decline in equities and alternative assets, and a 10 percent depreciation of all foreign currency exchange rates against the U.S. dollar were chosen

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solely for illustrative purposes. The selection of these specific events should not be construed as a prediction, but only as a demonstration of the potential effects of such events. These scenarios should not be construed as the only risks AIG faces; these events are shown as an indication of several possible losses AIG could experience. In addition, losses from these and other risks could be materially higher than illustrated.

The sensitivity factors utilized for 2010 and presented above were selected based on historical data from 1990 to 2010, as follows (see the table below):

- a 100 basis point parallel shift in the yield curve is broadly consistent with a one standard deviation movement of the benchmark ten-year treasury yield;
- a 20 percent drop for equity and alternative investments is broadly consistent with a one standard deviation movement in the S&P 500; and
- a 10 percent depreciation of foreign currency exchange rates is consistent with a one standard deviation movement in the U.S. dollar (USD)/Japanese Yen (JPY) exchange rate.

	Period	Standard Deviation	Suggested 2010 Scenario	2010 Scenario as a Multiple of Standard Deviation	2010 Change/ Return	2010 as a Multiple of Standard Deviation	Original 2009 Scenario (based on Standard Deviation for 1989-2009 Period)
10-Year Treasury	1990-2010	0.01	0.01	1.01	(0.01)	0.56	0.01
S&P 500	1990-2010	0.19	0.20	1.05	0.13	0.67	0.20
USD/JPY	1990-2010	0.11	0.10	0.92	0.15	1.34	0.10

Operational Risk Management

AIG's Operational Risk Management department (ORM) oversees AIG's operational risk management practices. The Director of ORM reports to the CRO. ORM is responsible for establishing and maintaining the framework, principles and guidelines of AIG's operational risk management program.

Each business unit is responsible for its operational risks and implementing the components of the operational risk management program to effectively identify, assess, monitor and mitigate such risks. This responsibility includes developing and implementing policies, procedures, management oversight processes, and other governance-related activities consistent with AIG's overall operational risk management process.

Senior operational risk executives in the businesses report to the Director of ORM and to business management. This reporting structure facilitates development of business-specific knowledge of operational risk matters, while at the same time maintaining company-wide consistency in AIG's overall approach to operational risk management.

A strong operational risk management program facilitates escalation and resolution of operational risk issues. In order to accomplish this, AIG's operational risk management program is designed to:

- pro-actively address potential operational risk issues;
- create transparency at all levels of the organization; and
- assign clear ownership and accountability for addressing identified issues.

As part of the operational risk management framework, AIG has implemented a risk and control self assessment (RCSA) process. The RCSA process is used to identify key operational risks and evaluate the effectiveness of existing controls to mitigate those risks. Corrective action plans are developed to address any identified issues. In 2010, business units continued to enhance their RCSA processes to perform more robust risk assessments.

The Operational Risk Management Forum, a company-wide governance body comprised of senior ORM executives, including the senior business operational risk executives, meets regularly and provides a forum for approving operational risk policies and ensuring effectiveness of the operational risk management program.

Segment Risk Management

Other than as described above, AIG manages its business risk oversight activities through its operating segments.

Insurance Operations

AIG's multiple insurance businesses conducted on a global basis expose AIG to a wide variety of risks with different time horizons. These risks are managed throughout the organization, both centrally and locally, through a number of procedures, including:

- pre-launch approval of product design, development and distribution;
- underwriting approval processes and authorities;
- exposure limits with ongoing monitoring;
- modeling and reporting of aggregations and limit concentrations at multiple levels (policy, line of business, product group, country, individual/group, correlation and catastrophic risk events);
- compliance with financial reporting and capital and solvency targets;
- extensive use of reinsurance, both internal and third-party; and
- review and establishment of reserves.

AIG closely manages insurance risk by overseeing and controlling the nature and geographic location of the risks in each line of business underwritten, the terms and conditions of the underwriting and the premiums charged for taking on the risk. Concentrations of risk, including, but not limited to, wind, flood, earthquake, terrorism and accident are analyzed using various modeling techniques.

AIG has two major categories of insurance risks as follows:

- *Property and casualty (Chartis and Mortgage Guaranty)* risks covered include property, casualty, fidelity/surety, management liability and mortgage insurance. Risks in the general insurance segment are managed through aggregations and limitations of concentrations at multiple levels: policy, line of business, correlation and catastrophic risk events. Risks in the mortgage insurance business are managed through geographic location of the insured properties, the relative economic conditions in the local housing markets, credit attributes of the borrowers and the loan amount relative to the value of the respective collateral.
- *Domestic Life Insurance & Retirement Service (SunAmerica)* risks include mortality and morbidity in the insurance-oriented products and insufficient cash flows to cover contract liabilities in the retirement savings-oriented products. Risks are managed through product design, sound medical underwriting, external traditional reinsurance programs and external

catastrophe reinsurance programs.

AIG is a major purchaser of reinsurance for its insurance operations. The use of reinsurance facilitates insurance risk management (retention, volatility, concentrations) and capital planning locally (branch and subsidiary). AIG may purchase reinsurance on a pooled basis. Pooling of AIG's reinsurance risks enables AIG to purchase reinsurance more efficiently at a consolidated level, manage global counterparty risk and relationships and manage global catastrophe risks, both for Chartis and SunAmerica.

Chartis

At Chartis, underwriting risks are managed through the application approval process, exposure limitations as well as through exclusions, deductibles and self-insured retentions, coverage limits and reinsurance. The risks

covered by AIG are managed through sound underwriting practices, pricing procedures and the use of actuarial analysis as part of the determination of overall adequacy of provisions for insurance contract liabilities. Underwriting practices and pricing procedures are based on historical experience, current regulation and judicial decisions as well as proposed or anticipated regulatory changes.

Climate change and related regulatory initiatives may increase both the frequency and severity of claims or the cost of defending such claims. Chartis policies are primarily written for periods of 12 months, providing Chartis with the ability to modify underwriting practices and pricing procedures; limiting the financial impact of such increase in claims. Each line of business and many individual policyholders may have different exposures to the effects of climate change. While it is not possible to precisely quantify the impact of a policyholder's operations on climate change, underwriters routinely evaluate the potential effect on greenhouse gas emissions when considering policy renewals. Property and casualty insurance policies typically exclude or significantly limit coverage for pollution and related environmental damage. While these pollution exclusions have sustained judicial scrutiny and have not been overturned by judicial decisions, there can be no assurance that future court decisions will uphold prior case law precedents.

A primary goal of AIG in managing its Chartis operations is to achieve an underwriting profit. To achieve this goal, AIG must be disciplined in its risk selection, premiums must be adequate, and terms and conditions must be appropriate to cover the risk accepted.

Catastrophe Exposures

The nature of AIG's business exposes it to various catastrophic events in which multiple losses across multiple lines of business can occur in any calendar year. In order to control this exposure, AIG uses a combination of techniques, including setting aggregate limits in key business units, monitoring and modeling accumulated exposures, and purchasing catastrophe reinsurance to supplement its other reinsurance protections. The majority of policies exposed to catastrophic events are one-year contracts allowing AIG to quickly adjust its exposure to catastrophic events if climate changes or other events increase the frequency or severity of catastrophes.

Natural disasters, such as hurricanes, earthquakes and other catastrophes, have the potential to adversely affect AIG's operating results. Other risks, such as a pandemic disease, like the Swine Flu Influenza A Virus (H1N1), could adversely affect AIG's business and operating results to the extent they are only partially offset by reinsurance programs.

AIG evaluates catastrophic events and assesses the probability of occurrence and magnitude of catastrophic events through the use of industry recognized models, among other techniques. AIG updates these models by periodically monitoring the exposure risks of AIG's worldwide Chartis operations and adjusting such models accordingly. Changing climate conditions have added to the unpredictability and frequency of natural disasters (including, but not limited to, hurricanes, tornadoes, floods and fires) increasing the uncertainty as to future trends and exposures. Following is an overview of modeled losses associated with the more significant natural perils, which includes exposures for Chartis U.S. and Chartis International. The modeled results assume that all reinsurers fulfill their obligations to AIG in accordance with their terms.

Chartis utilizes industry recognized catastrophe models. The use of different methodologies and assumptions could materially change the projected losses. Therefore, these modeled losses may not be comparable to estimates made by other companies. These estimates are inherently uncertain and may not reflect AIG's maximum exposures to these events. It is highly likely that AIG's losses will vary, perhaps significantly, from these estimates.

The modeled results provided in the table below were based on the aggregate exceedence probability (AEP) losses, which represent total property, workers' compensation, and A&H losses that may occur in any single year from one or more natural events. The A&H data include exposures for United States, Japan and Taiwan earthquakes. These exposures represent the largest share of A&H exposures to earthquakes. A&H losses were modeled using April 2009 data. The property exposures were modeled with data as of September 2010. All reinsurance program structures, domestic and international, reflect the reinsurance programs in place as of January 1, 2011. The values provided were based on 100-year return period losses, which have a one percent

likelihood of being exceeded in any single year. Thus, the model projects that there is a one percent probability that AIG could incur in any year losses in excess of the modeled amounts for these perils. Losses include loss adjustment expenses and the net values include reinstatement premiums.

At December 31, 2010 *(in millions)*	**Gross**	**Net of 2011 Reinsurance**	**Net of 2011 Reinsurance, After Tax**	**Percent of Total Equity**
Natural Peril:				
Earthquake	$ 6,299	$ 3,695	$ 2,402	5.26%
Tropical Cyclone*	$ 6,863	$ 4,406	$ 2,864	6.27%

* *Includes hurricanes, typhoons and European windstorms.*

Gross earthquake and tropical cyclone modeled losses decreased $633 million and $522 million, respectively, compared to 2009, while net losses increased $165 million and $107 million, respectively, compared to 2009. These decreases in gross losses are primarily due to our use of active aggregate management programs to decrease AIG's catastrophe exposure and increases in net losses are primarily due to a reduction in reinsurance coverage.

In addition to the return period loss, AIG evaluates potential single event earthquake and hurricane losses that may be incurred. The single events utilized are a subset of potential events identified and utilized by Lloyd's *(see Lloyd's Realistic Disaster Scenarios, Scenario Specifications, January 2011)* and referred to as Realistic Disaster Scenarios (RDS). The purpose of this analysis is to utilize these RDS to provide a reference frame and place into context the model results. However, it is important to note that the specific events used for this analysis do not necessarily represent the worst case loss that AIG could incur from this type of an event in these regions. The losses associated with the RDS are included in the following table.

Single-event modeled property and workers' compensation losses to AIG's worldwide portfolio of risk for key geographic areas are set forth below. Gross values represent AIG's liability after the application of policy limits and deductibles and net values represent losses after reinsurance is applied. The net losses also include reinsurance reinstatement premiums. Both gross and net losses include loss adjustment expenses.

At December 31, 2010 *(in millions)*	**Gross**	**Net of 2011 Reinsurance**
Natural Peril:		
Northeast Hurricane	$ 4,590	$ 3,024
Gulf Coast Hurricane	$ 5,209	$ 2,963
Los Angeles Earthquake	$ 6,140	$ 2,866
San Francisco Earthquake	$ 5,918	$ 2,864
Miami Hurricane	$ 7,109	$ 2,853
Japanese Earthquake	$ 1,052	$ 563
European Windstorm	$ 545	$ 380
Japanese Typhoon	$ 641	$ 340

AIG also monitors key international property risks utilizing industry recognized natural catastrophe models. Based on the occurrence exceedance probabilities, the 100-year return period loss for Japanese Earthquake is $639 million gross and $356 million net; the 100-year return period loss for European Windstorm is $640 million gross and $435 million net; and the 100-year return period loss for Japanese Typhoon is $944 million gross and $539 million net.

ACTUAL RESULTS IN ANY PERIOD ARE LIKELY TO VARY, PERHAPS MATERIALLY, FROM THE MODELED SCENARIOS, AND THE OCCURRENCE OF ONE OR MORE SEVERE EVENTS COULD HAVE A MATERIAL ADVERSE EFFECT ON AIG'S FINANCIAL CONDITION, RESULTS OF OPERATIONS AND LIQUIDITY.

Terrorism

Exposure to loss from terrorist attack is controlled by limiting the aggregate accumulation of workers' compensation and property insurance that is underwritten within defined target locations. Modeling is used to provide projections of PML probable maximum loss by target location based upon the actual exposures of AIG policyholders.

Terrorism risk is monitored to manage AIG's exposure. AIG shares its exposures to terrorism risks under the Terrorism Risk Insurance Program Reauthorization Act of 2007 (TRIPRA). During 2010, AIG's deductible under TRIPRA was approximately $3.3 billion, with a 15 percent share of certified terrorism losses in excess of the deductible. As of January 1, 2011, the deductible decreased to approximately $2.9 billion, with a 15 percent share of certified terrorism losses in excess of the deductible.

Reinsurance

AIG uses reinsurance programs for its insurance risks as follows:

- facultative agreements to cover large individual exposures;
- quota share treaties to cover specific books of business;
- excess-of-loss treaties to cover large losses;
- excess or surplus automatic treaties to cover individual life risks in excess of stated per-life retention limits; and
- catastrophe treaties to cover specific catastrophes, including earthquake, windstorm and flood.

AIG monitors its exposures to natural catastrophes and takes corrective actions to limit its exposure with respect to particular geographic areas, companies, or perils.

The RSD conducts periodic detailed assessments of the financial status and condition of current and potential reinsurers, both foreign and domestic. The RSD monitors both the nature of the risks ceded to the reinsurers and the aggregation of total reinsurance recoverables ceded to reinsurers. Such assessments may include, but are not limited to, identifying whether a reinsurer is appropriately licensed and has sufficient financial capacity and evaluating the local economic environment in which a foreign reinsurer operates.

The RSD reviews the nature of the risks ceded to reinsurers and the need for credit risk mitigants. For example, in AIG's treaty reinsurance contracts, AIG frequently includes provisions that require a reinsurer to post collateral when a referenced event occurs. Furthermore, AIG limits its unsecured exposure to reinsurers through the use of credit triggers which include, but are not limited to, insurer financial strength rating downgrades, declines in statutory surplus below pre-determined levels, decreases in NAIC risk-based capital (RBC) below certain levels, or setting maximum limits for reinsurance recoverables. In addition, AIG's CRC reviews all reinsurer exposures and credit limits and approves most large reinsurer credit limits above pre-set limits that represent actual or potential credit concentrations. AIG believes that no exposure to a single reinsurer represents an inappropriate concentration of risk to AIG, nor is AIG's business substantially dependent upon any single reinsurance contract.

AIG enters into intercompany reinsurance transactions for its Chartis and SunAmerica operations. AIG enters into these transactions as a sound and prudent business practice in order to maintain underwriting control and spread insurance risk among AIG's various insurance company subsidiaries and to take advantage of economies of scale with external reinsurers. When required for statutory recognition, AIG obtains letters of credit from third-party financial institutions to collateralize these intercompany transactions. At December 31, 2010, approximately $6.1 billion of third-party letters of credit were outstanding to cover reinsurance transactions and, in some cases, among subsidiaries.

Although reinsurance arrangements do not relieve AIG subsidiaries from their direct obligations to insureds, an efficient and effective reinsurance program substantially mitigates AIG's exposure to potentially significant losses.

AIG continually evaluates the reinsurance markets and the relative attractiveness of various arrangements for coverage, including structures such as catastrophe bonds, insurance risk securitizations, "sidecars" and similar vehicles.

AIG purchased U.S. property catastrophe coverage of approximately $4.8 billion and $4.2 billion in 2011 and 2010, respectively, in excess of a per occurrence deductible of $2.0 billion. During 2010, additional property catastrophe coverage of $875 million was obtained through catastrophe bond issuances, bringing the total property catastrophe coverage to $5.1 billion for the year. In addition, AIG purchased $250 million and $320 million in 2011 and 2010, respectively, in workers' compensation catastrophe reinsurance.

Reinsurance Recoverable

Chartis' reinsurance recoverable assets are comprised of:

- balances due from reinsurers for indemnity losses and loss expenses billed to, but not yet collected from, reinsurers (collectively, Paid Losses Recoverable);
- ultimate ceded reserves for indemnity losses and expenses, including reserves for claims reported but not yet paid and estimates for IBNR (collectively, Ceded Loss Reserves); and
- ceded Reserves for Unearned Premiums.

At December 31, 2010, reinsurance recoverable assets of $24.6 billion include Paid Losses Recoverable of $1.0 billion, Ceded Loss Reserves of $19.6 billion, and Ceded Reserves for Unearned Premiums of $3.9 billion. The methods used to estimate IBNR and to establish the resulting ultimate losses involve projecting the frequency and severity of losses over multiple years and are continually reviewed and updated by management. Any adjustments are reflected in income. It is AIG's belief that the ceded reserves for losses and loss expenses at December 31, 2010 reflect a reasonable estimate of the ultimate losses recoverable. Actual losses may, however, differ from the reserves currently ceded.

AIG manages the credit risk in its reinsurance relationships by transacting with reinsurers that it considers financially sound, providing for appropriate credit limits and diversification and, when necessary, AIG requires reinsurers to post collateral in the form of funds withheld, securities in reinsurance trust accounts and/or irrevocable letters of credit. This collateral can be drawn on for amounts that remain unpaid on an individual reinsurer basis. At December 31, 2010, approximately 57 percent of the reinsurance assets were from unauthorized reinsurers. The terms authorized and unauthorized pertain to regulatory categories, not creditworthiness. More than 50 percent of these balances were collateralized, permitting statutory recognition. In January 2011 Chartis Inc. obtained $1.3 billion of letters of credit under a one-year letter of credit facility issued by commercial banks in favor of certain Chartis companies to permit those companies statutory recognition of balances otherwise uncollateralized at December 31, 2010. The letters of credit issued under the facility replaced approximately $1.3 billion in the aggregate of bi-lateral letters of credit and reinsurance trusts in place prior to the issuance of letters of credit under the letter of credit facility. Approximately $800 million of additional pre-existing reinsurance trusts have been retained in favor of certain Chartis companies and are available to those companies to be used as reinsurance collateral for statutory recognition. The remaining 43 percent of the reinsurance assets were from authorized reinsurers. At December 31, 2010, approximately 86 percent of the balances with respect to authorized reinsurers are from reinsurers rated A (excellent) or better, as rated by A.M. Best, or A (strong) or better, as rated by S&P. These ratings are measures of financial strength.

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American International Group, Inc., and Subsidiaries

The following table presents information for each reinsurer representing in excess of four percent of AIG's total Reinsurance assets:

At December 31, 2010 (in millions)	S&P Rating[(a)]	A.M. Best Rating[(a)]	Gross Reinsurance Assets	Percent of Reinsurance Assets, Net	Collateral Held[(b)]	Uncollateralized Reinsurance Assets
Reinsurer:						
Transatlantic	A+	A	$ 1,985	8.1%	$ 103	$ 1,882
Swiss Reinsurance Group of Companies	A+	A	$ 1,606	6.5%	$ 335	$ 1,271
Munich Reinsurance Group of Companies	AA-	A+	$ 1,860	7.6%	$ 729	$ 1,131

(a) *The financial strength ratings reflect the ratings of the various reinsurance subsidiaries of the companies listed as of February 16, 2011.*

(b) *Excludes collateral held in excess of applicable treaty balances.*

The estimation of reinsurance recoverable involves a significant amount of judgment, particularly for asbestos exposures, due to its long-tail nature. Chartis assesses the collectability of its reinsurance recoverable balances through detailed reviews of the underlying nature of the reinsurance balance, including paid and unpaid recoverables, whether the balance is in dispute or a legal collection status, whether the insurer is financially troubled (i.e., liquidated, insolvent, in receivership or otherwise subject to formal or informal regulatory restriction), whether collateral and collateral arrangements exist, and the credit quality of the underlying insurer. Detailed reviews of the underlying receivables are particularly important when assessing recoverables attributable to long-tail exposures, such as asbestos. Adjustments to reflect the results of the detailed review are recorded through an allowance for uncollectable reinsurance. At December 31, 2010, the allowance for estimated unrecoverable reinsurance was $492.6 million. At December 31, 2010, AIG had no significant reinsurance recoverables due from any individual reinsurer that was financially troubled. In the current environment of weaker economic conditions and strained financial markets, certain reinsurers are reporting losses and could be subject to rating downgrades. AIG's reinsurance recoverable exposures are primarily to the regulated subsidiaries of such companies which are subject to minimum regulatory capital requirements. AIG's Reinsurance Security Department (RSD), in conjunction with CRM, is reviewing these developments, is monitoring compliance with credit triggers that may require the reinsurer to post collateral, and, as appropriate, will seek to use other means to mitigate any material risks arising from these developments.

SunAmerica

For SunAmerica, the primary risks are the following:

- Pricing risk, which represents the potential exposure to loss resulting from actual policy experience emerging adversely in comparison to the assumptions made in product pricing associated with investment results, mortality, morbidity, terminations and expenses;

- Investment risk, which represents the exposure to loss resulting from the cash flows from the invested assets being less than cash flows required to meet the obligations of the expected policy and contract liabilities and the necessary return on investments;

- Interest rate risk, which represents the exposure to loss due to the sensitivity of the liabilities and assets to changes in interest rates; and

Equity market risk, which represents the potential exposure to higher claim costs for guaranteed benefits associated with variable annuities and the potential reduction in expected fee revenue.

AIG businesses manage these risks through product design, exposure limitations and the active management of the asset-liability relationship in their operations. The emergence of significant adverse experience would require an adjustment to DAC and benefit reserves that could have a material adverse effect on AIG's consolidated results of operations for a particular period. For a further discussion of this risk, see Item 1A. Risk Factors Adjustments to Deferred Policy Acquisition Costs for Life Insurance and Retirement Services companies.

SunAmerica companies generally limit their maximum underwriting exposure on life insurance of a single life to $15 million or less of coverage, in certain circumstances by using yearly renewable term reinsurance. For SunAmerica companies, the reinsurance programs provide risk mitigation per life for individuals and group and for catastrophic risk events.

Financial Services

AIG's Financial Services subsidiaries engage in diversified activities including commercial aircraft leasing and the remaining Capital Markets businesses and portfolios. Together, the Aircraft Leasing and Capital Markets operations generate the majority of the revenues produced by the Financial Services operations.

Capital Markets

AIGFP has continued to unwind its portfolios, including those associated with credit protection written through credit default swaps on super senior risk tranches of diversified pools of loans and debt securities. As a consequence of its wind-down strategy, AIGFP is entering into new derivative transactions only to hedge its current portfolio, reduce risk and hedge the currency, interest rate and other market risks associated with its affiliated businesses. See Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity of Parent and Subsidiaries Financial Services Capital Markets Wind-down. Prior to the wind-down, AIGFP engaged as principal in a wide variety of financial transactions, including standard and customized financial products involving commodities, credit, currencies, energy, equities and interest rates.

Historically, AIGFP derived a significant portion of its revenues from hedged financial positions entered into in connection with counterparty transactions. Prior to the wind-down, AIGFP also participated as a dealer in a wide variety of financial derivatives transactions.

The senior management of AIG defines the policies and establishes general operating parameters for Capital Markets operations. AIG's senior management has established various oversight committees to monitor on an ongoing basis the various financial market, operational and credit risk attendant to the Capital Markets operations. The senior management of AIGFP reports the results of its operations to and reviews future strategies with AIG's senior management.

AIGFP actively manages its exposures to limit potential economic losses, and in doing so, AIGFP must continually manage a variety of exposures including credit, market, liquidity, operational and legal risks.

Derivative Transactions

A counterparty may default on any obligation to AIG, including a derivative contract. Credit risk is a consequence of extending credit and/or carrying trading and investment positions. Credit risk exists for a derivative contract when that contract has a positive fair value to AIG. The maximum potential exposure will increase or decrease during the life of the derivative commitments as a function of maturity and market conditions. To help manage this risk, AIGFP's credit department operates within the guidelines set by the CRC. Transactions which fall outside these pre-established guidelines require the specific approval of the CRC. It is also AIG's policy to include credit valuation adjustments for potential counterparty default when necessary.

In addition, AIGFP utilizes various credit enhancements, including letters of credit, guarantees, collateral, credit triggers, credit derivatives and margin agreements to reduce the credit risk relating to its outstanding financial derivative transactions. AIGFP requires credit enhancements in connection with specific transactions based on, among other things, the creditworthiness of the counterparties, and the transaction's size and maturity. Furthermore, AIGFP generally seeks to enter into agreements that have the benefit of set-off and close-out netting provisions. These provisions provide that, in the case of an early termination of a transaction, AIGFP can set off its receivables from a counterparty against its payables to the same counterparty arising out of all covered transactions. As a result, where a legally enforceable netting agreement exists, the fair value of the transaction with the counterparty represents the net sum of estimated fair values. The fair value of AIGFP's interest rate,

currency, commodity and equity swaps, options, swaptions, and forward commitments, futures, and forward contracts reported in unrealized gains on swaps, options and forward transactions was approximately $4.8 billion at December 31, 2010 and $7.6 billion at December 31, 2009. Where applicable, these amounts have been determined in accordance with the respective master netting agreements.

AIGFP evaluates the counterparty credit quality by reference to ratings from rating agencies or, where such ratings are not available, by internal analysis consistent with the risk rating policies of the CRC. In addition, AIGFP's credit approval process involves pre-set counterparty and country credit exposure limits subject to approval by the CRC and, for particularly credit-intensive transactions, requires approval from the CRC.

The following table presents the fair value of Capital Markets derivatives portfolios by counterparty credit rating:

At December 31, *(in millions)*	**2010**	2009
Rating:		
AAA	**$ 310**	$ 896
AA	**885**	1,286
A	**1,170**	3,682
BBB	**1,625**	1,535
Below investment grade	**795**	213
Total	**$ 4,785**	$ 7,612

See Critical Accounting Estimates and Note 12 for additional discussion related to derivative transactions.

Capital Markets Trading VaR

AIGFP attempts to minimize risk in benchmark interest rates, equities, commodities and foreign exchange. Market exposures in option-implied volatilities, correlations and basis risks are also minimized over time.

AIGFP's minimal reliance on market risk-driven revenue is reflected in its VaR. AIGFP's VaR calculation is based on the interest rate, equity, commodity and foreign exchange risk arising from its portfolio. Credit-related factors, such as credit spreads or credit default, are not included in AIGFP's VaR calculation. Because the market risk with respect to securities available for sale, at market, is substantially hedged, segregation of the financial instruments into trading and other than trading was not considered necessary. AIGFP operates under established market risk limits based upon this VaR calculation. In addition, AIGFP back-tests its VaR.

In the calculation of VaR for AIGFP, AIG uses the historical simulation methodology based on estimated changes to the value of all transactions under explicit changes in market rates and prices within a specific historical time period. AIGFP attempts to secure reliable and independent current market prices, such as published exchange prices, external subscription services, such as Bloomberg or Reuters, or third-party or broker quotes. When such prices are not available, AIGFP uses an internal methodology that includes extrapolation from observable and verifiable prices nearest to the dates of the transactions. Historically, actual results have not deviated from these models in any material respect.

AIGFP reports its VaR level using a 95 percent confidence level and a one-day holding period, facilitating risk comparison with AIGFP's trading peers and reflecting the fact that market risks can be actively assumed and offset in AIGFP's trading portfolio.

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The following table presents the year-end, average, high, and low VaRs on a diversified basis and of each component of market risk for Capital Markets operations. The diversified VaR is usually smaller than the sum of its components due to correlation effects.

(in millions)	At December 31, 2010	For the Year Ended December 31, 2010 Average	High	Low	At December 31, 2009	For the Year Ended December 31, 2009 Average	High	Low
Capital Markets trading market risk:								
Diversified	**$ 1**	**$ 2**	**$ 3**	**$ 1**	$ 3	$ 3	$ 6	$ 2
Interest rate	**1**	**2**	**3**	**1**	3	2	5	2
Currency	**-**	**-**	**1**	**-**	-	1	3	-
Equity	**-**	**-**	**2**	**-**	1	1	3	1
Commodity	**-**	**-**	**-**	**-**	-	-	1	-

See Critical Accounting Estimates Valuation of Level 3 Assets and Liabilities for a comprehensive discussion of AIGFP's super senior credit default swap portfolio.

Aircraft Leasing

AIG's Aircraft Leasing operations represent the operations of ILFC, which generates its revenues primarily from leasing new and used commercial jet aircraft to foreign and domestic airlines. Aircraft Leasing operations also include gains and losses that result from the re-marketing of commercial jet aircraft for ILFC's own account and re-marketing and fleet management services for airlines and financial institutions. Risks inherent in this business, which are managed at the business unit level, include the following:

- the risk that there will be no market for the aircraft acquired;
- the risk that aircraft cannot be placed with lessees;
- the risk of non-performance by lessees; and
- the risk that aircraft and related assets cannot be disposed of at the time and in a manner desired.

The airline industry is sensitive to changes in economic conditions and is cyclical and highly competitive. Airlines and related companies may be affected by political or economic instability, terrorist activities, changes in national policy, competitive pressures, fuel prices and shortages, labor stoppages, pilot shortages, insurance costs, recessions, health concerns and other political or economic events adversely affecting world or regional trading markets.

ILFC's revenues and pre-tax income may be adversely affected by the volatile competitive environment in which its customers operate. ILFC is exposed to pre-tax loss and liquidity strain through non-performance of aircraft lessees, through owning aircraft which it may be unable to sell or re-lease at acceptable rates at lease expiration, and, in part, through committing to purchase aircraft which it may be unable to lease.

As part of its ongoing fleet strategy, ILFC may pursue aircraft sales while balancing the need for funds with the long-term value of holding aircraft and other financing alternatives. Significant uncertainties could exist as to the aircraft comprising any actual sale portfolio, the terms of any sale portfolio (including price), and whether any portfolio sale will be approved. See Capital Resources and Liquidity Liquidity Liquidity of Parent and Subsidiaries Financial Services ILFC for further discussion.

To date ILFC manages the risk of nonperformance by its lessees with security deposit requirements, repossession rights, overhaul requirements and close monitoring of industry conditions through its marketing force. More than 94 percent of ILFC's fleet is leased to non-U.S. carriers, and the fleet continues to be in high demand from such carriers.

ILFC's management formally reviews regularly, and no less frequently than quarterly, issues affecting ILFC's fleet, including events and circumstances that may cause impairment of aircraft values. Management evaluates aircraft in the fleet as necessary based on these events and circumstances. ILFC recognized asset impairment charges related to its fleet in 2010 and 2009 of $1.6 billion and $51 million, respectively. ILFC did not recognize any asset impairment charges in 2008.

Critical Accounting Estimates

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

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

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 financial condition and results of operations would be directly affected.

The major categories for which assumptions are developed and used to establish each critical accounting estimate are highlighted below.

Liability for Unpaid Claims and Claims Adjustment Expenses (general insurance):

- *Loss trend factors:* used to establish expected loss ratios for subsequent accident years based on premium rate adequacy and the projected loss ratio with respect to prior accident years.
- *Expected loss ratios for the latest accident year:* in this case, accident year 2010 for the year-end 2010 loss reserve analysis. For low-frequency, high-severity classes such as excess casualty, expected loss ratios generally are utilized for at least the three most recent accident years.
- *Loss development factors:* used to project the reported losses for each accident year to an ultimate amount.

Reinsurance recoverable on unpaid losses: the expected recoveries from reinsurers on losses that have not yet been reported and/or settled.

AIG uses numerous assumptions in determining its best estimate of reserves for each class of business. The importance of any specific assumption can vary by both class of business and accident year. If actual experience differs from key assumptions used in establishing reserves, there is potential for significant variation in the development of loss reserves, particularly for long-tail casualty classes of business such as excess casualty, D&O or primary and excess workers' compensation.

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The following table summarizes the sensitivity analyses that estimate the effect on the loss reserve position of using alternative loss cost trend or loss development factor assumptions rather than those actually used in determining AIG's estimates in the year-end loss reserve analyses in 2010.

December 31, 2010 *(in millions)*	**Effect on Loss Reserves**		**Effect on Loss Reserves**
Loss cost trends:		Loss development factors:	
Excess casualty:		**Excess casualty:**	
10 percent increase	$ 2,800	7 percent increase	$ 1,500
10 percent decrease	(2,000)	5.3 percent decrease	(1,600)
D&O:		**D&O:**	
15 percent decrease	(600)	7 percent increase	450
20 percent increase	950	3 percent decrease	(200)
Excess workers' compensation:		**Excess workers' compensation:**	
5 percent increase	450	*(b)*	1,250
5 percent decrease	(300)	*(b)*	(1,250)
Primary workers' compensation[(a)]:		**Primary workers' compensation:**	
		7.5 percent increase	**2,180**
		3.9 percent decrease	**(1,130)**

(a) *Loss cost trend assumption is not material for this line of business.*

(b) *Not applicable due to extremely long-tailed nature of workers' compensation.*

The sensitivity analysis presented above addresses each major class of business for which a material deviation to AIG's overall reserve position is believed reasonably possible, and uses what AIG believes is a reasonably likely range of potential deviation for each class. There can be no assurance, however, that actual reserve development will be consistent with either the original or the adjusted loss trend or loss development factor assumptions, or that other assumptions made in the reserving process will not materially affect reserve development for a particular class of business.

Alternative Loss Cost Trend and Loss Development Factor Assumptions by Class of Business

For casualty business other than the classes discussed below, there is generally some potential for deviation in both the loss cost trend and loss development factor assumptions. However, the effect of such deviations is expected to be less material when compared to the effect on the classes noted above and discussed below.

Loss Cost Trends: It should be emphasized that the percentage deviations noted in the table below are not considered the highest possible deviations that might be expected, but rather what is considered by AIG to reflect a reasonably likely range of potential deviation. Actual loss cost trends in the early 1990s were negative for several years whereas actual loss cost trends exceeded the figures cited above for several other years. Thus, there can be no assurance that loss trends will not deviate by more than amounts noted above and discussed below.

Loss Development Factors: Except for Primary Workers' Compensation, the assumed loss development factors are a key assumption. 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, or that they will not deviate by more than the amounts noted above and discussed below.

Class of Business	Loss Cost Trend	Loss Development Factor
Excess Casualty	The assumed loss cost trend was approximately five percent. After evaluating the historical loss cost trends from prior accident years since the early 1990s, in AIG's judgment, it is reasonably likely that actual loss cost trends applicable to the year-end 2010 loss reserve review for excess casualty will range from negative five percent to positive 15 percent, or approximately ten percent lower or higher than the assumption actually utilized in the year-end 2010 reserve review. The loss cost trend assumption is critical for the excess casualty class of business due to the long-tail nature of the claims and therefore is applied across many accident years. Thus, there is the potential for the reserves with respect to a number of accident years to be significantly affected by changes in loss cost trends that were initially relied upon in setting the reserves. These changes in loss trends could be attributable to changes in inflation or in the judicial environment, or in other social or economic conditions affecting claims.	After evaluating the historical loss development factors from prior accident years since the early 1990s, in AIG's judgment, it is reasonably likely that actual loss development factors will range from approximately 5.3 percent below those actually utilized in the year-end 2010 reserve review to approximately 7.0 percent above those factors actually utilized. Excess casualty is a long-tail class of business and any deviation in loss development factors might not be discernible for an extended period of time subsequent to the recording of the initial loss reserve estimates for any accident year. Thus, there is the potential for the reserves with respect to a number of accident years to be significantly affected by changes in loss development factors that were initially relied upon in setting the reserves. These changes in loss development factors could be attributable to changes in inflation or in the judicial environment, or in other social or economic conditions affecting claims.
D&O and Related Management Liability Classes of Business	The assumed loss cost trend was approximately four percent. After evaluating the historical loss cost trends from prior accident years since the early 1990s, including the potential effect of recent claims relating to the credit crisis, in AIG's judgment, it is reasonably likely that actual loss cost trends applicable to the year-end 2010 loss reserve review for these classes will range from negative 11 percent to positive 24 percent, or approximately 15 percent lower or 20 percent higher than the assumption actually utilized in the year-end 2010 reserve review. Because the D&O class of business has exhibited highly volatile loss trends from one accident year to the next, there is the possibility of an exceptionally high deviation.	The assumed loss development factors are also an important assumption but less critical than for excess casualty. Because these classes are written on a claims made basis, the loss reporting and development tail is much shorter than for excess casualty. However, the high severity nature of the claims does create the potential for significant deviations in loss development patterns from one year to the next. After evaluating the historical loss development factors for these classes of business for accident years since the early 1990s, in AIG's judgment, it is reasonably likely that actual loss development factors will range from approximately 3 percent lower to 7 percent higher than those factors actually utilized in the year-end 2010 loss reserve review for these classes.

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Class of Business	Loss Cost Trend	Loss Development Factor
Excess Workers' Compensation	Loss costs were trended at six percent per annum. After reviewing actual industry loss trends for the past ten years, in AIG's judgment, it is reasonably likely that actual loss cost trends applicable to the year-end 2010 loss reserve review for excess workers' compensation will range five percent lower or higher than this estimated loss trend.	Excess workers' compensation is an extremely long-tail class of business, with a much greater than normal uncertainty as to the appropriate loss development factors for the tail of the loss development. After evaluating the historical loss development factors for prior accident years since the 1980s as well as the development over the past several years of the ground up claim projections utilized to help select the loss development factors in the tail for this class of business, in AIG's judgment, it is reasonably likely that actual loss development for excess workers' compensation could increase or decrease the current reserves by up to approximately $1.25 billion.
Primary Workers' Compensation	The loss cost trend assumption is not believed to be material with respect to AIG's loss reserves. This is primarily because AIG's actuaries are generally able to use loss development projections for all but the most recent accident year's reserves, so there is limited need to rely on loss cost trend assumptions for primary workers' compensation business.	Generally, AIG's actual historical workers' compensation loss development factors would be expected to provide a reasonably accurate predictor of future loss development. However, workers' compensation is a long-tail class of business, and AIG's business reflects a very significant volume of losses, particularly in recent accident years. After evaluating the actual historical loss development since the 1980s for this business, in AIG's judgment, it is reasonably likely that actual loss development factors will fall within the range of approximately 3.9 percent below to 7.5 percent above those actually utilized in the year-end 2010 loss reserve review.

See Results of Operations Segment Results Chartis Operations Liability for unpaid claims and claims adjustment expense for additional information on AIG's reserve for unpaid claims and claims adjustment expenses.

Future Policy Benefits for Life and Accident and Health Contracts (life insurance and retirement services companies):

Investment returns: which vary by geographical region, year of issuance and products.

Mortality, morbidity and surrender rates: based upon actual experience by geographical region modified to allow for variation in policy form, risk classification and distribution channel.

Annually, AIG evaluates estimates used in establishing liabilities for future policy benefits for life insurance and accident and health contracts. AIG also evaluates estimates used in amortizing Deferred Policy Acquisition Costs (DAC), Value of Business Acquired (VOBA) and Sales Inducement Assets (SIA) assets for these products. These estimates are evaluated against actual experience and are adjusted based on management judgment regarding mortality, morbidity, persistency, company maintenance expenses, and investment returns. For long duration traditional business, a "lock-in" principle applies, whereby the assumptions used to calculate the benefit reserves and DAC are set when a policy is issued and do not change with changes in actual experience. These assumptions include margins for adverse deviation in the event that actual experience might deviate from these assumptions.

AIG experience changes over time, the best estimate assumptions are updated to reflect observed changes. Because of the long term nature of many of AIG's liabilities subject to the lock in principle, small changes in certain assumptions may cause large changes in the degree of reserve

adequacy. In particular, changes in estimates of future invested asset returns assumptions have a large effect on the degree of reserve deficiency.

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AIG's future policy benefits include guaranteed minimum death benefits (GMDB) and guaranteed minimum income benefits (GMIB). The GMDB and GMIB liabilities are determined at each period-end by estimating the expected value of death benefits and expected value of the annuitization benefits in excess of the projected account balances and incorporating assumptions including interest rates, mortality rates, lapse rates and stochastically generated investment returns.

AIG also issues certain variable annuity products that offer optional guaranteed minimum withdrawal benefits (GMWB) and guaranteed minimum account value benefits (GMAV). These benefits are embedded derivatives that are required to be bifurcated from the host contract and carried at fair value. The fair value estimates of the living benefit guarantees include assumptions such as equity market returns, interest rates and volatilities. AIG hedges a portion of these guarantees by utilizing both exchange traded and over-the-counter index options and exchange traded futures. For a further discussion of the risks of our unhedged exposures, see Item 1A. Risk Factors Guarantees Within Variable Annuities.

Deferred Policy Acquisition Costs (life insurance and retirement services companies):

Recoverability: based on current and future expected profitability, which is affected by interest rates, mortality, morbidity experience, expenses, investment returns and policy persistency.

Estimated Gross Profits for Investment-Oriented Products (life insurance and retirement services companies):

Estimated gross profits: to be realized over the estimated duration of the contracts (investment-oriented products), which affect the carrying value of DAC (including VOBA), unearned revenue liability, SIA and associated amortization patterns. Estimated gross profits (EGP) are subject to differing market returns and interest rate environments in any single period. EGP is composed of net interest income, net realized investment gains and losses, fees, surrender charges, expenses, and mortality and morbidity gains and losses. When assumptions are changed, the percentage of EGP used to amortize DAC might also change.

The following table summarizes the sensitivity of changes in certain assumptions in the amortization of DAC/SIA, guaranteed benefits reserves and unearned revenue liability and the related hypothetical impact in 2010. The effect of changes in the equity markets, volatility and interest rates primarily impacts individual variable annuities (SunAmerica Retirement Markets) and group retirement products (VALIC). The effect of changes in mortality primarily impacts the universal life insurance business.

December 31, 2010 *(in millions)*	**DAC/SIA**	**Guaranteed Benefits Reserve**[(a)]	**Unearned Revenue Liability**	**Net pre-tax Earnings**
Assumptions:				
Equity Return[(b)]				
Effect of an increase by 1%	$ 87	$ (18)	$ NA	$ 105
Effect of a decrease by 1%	(89)	53	NA	(142)
Volatility[(c)]				
Effect of an increase by 1%	2	11	NA	(9)
Effect of a decrease by 1%	(1)	(11)	NA	10
Interest Rate[(d)]				
Effect of an increase by 10 basis points	(2)	(17)	NA	15
Effect of a decrease by 10 basis points	2	17	NA	(15)
Mortality				
Effect of an increase by 1%	(27)	11	(17)	(21)
Effect of a decrease by 1%	24	(12)	13	23

(a)

Includes GMDB and GMIB reserves as well as living benefits reserves, net of hedging impact.

(b)
Represents the net impact of 1 percent increase or decrease in equity returns for GMDB and GMIB reserves and the net impact of 1 percent increase or decrease in the S&P 500 index for living benefit reserves.

(c)
Represents the net impact of 1 percentage point increase or decrease in implied volatility.

(d) *Represents the net impact of a 10 basis point parallel shift in the yield curve.*

The analysis of DAC, guaranteed benefits reserve and unearned revenue liability is a dynamic process that considers all relevant factors and assumptions described above. Each of the factors set forth above is estimated individually, without consideration of any correlation among the key assumptions. An assessment of sensitivity associated with changes in any single assumption would not necessarily be an indicator of future results.

Deferred Policy Acquisition Costs Short Duration (general insurance):

Recoverability: based upon the current terms and profitability of the underlying insurance contracts.

Policy acquisition costs are deferred and amortized over the period in which the related premiums written are earned, generally 12 months. DAC is grouped consistent with the manner in which the insurance contracts are acquired, serviced and measured for profitability and is reviewed for recoverability based on the profitability of the underlying insurance contracts. AIG assesses the recoverability of its DAC on an annual basis or more frequently if circumstances indicate an impairment may have occurred. This assessment is performed by comparing recorded unearned premium to the sum of expected claims, claims adjustment expenses and maintenance cost, unamortized DAC and anticipated maintenance costs. If the sum of these costs exceeds the amount of recorded unearned premium, the excess is recognized as an offset against the asset established for DAC. This offset is referred to as a premium deficiency charge. Investment income is not anticipated in assessing the recoverability of DAC. Increases in the expected claims, and claims adjustment expenses can have a significant impact on the likelihood and amount of a premium deficiency charge. Management tested the recoverability of DAC and determined that recorded unearned premiums of its Chartis U.S. and Chartis International operating segments exceeded the sum of these costs at December 31, 2010, by one percent and 16 percent, respectively, and, therefore, the DAC of these reporting units was considered to be recoverable. DAC for Chartis U.S. and Chartis International amounted to $1.8 billion and $1.6 billion, respectively, at December 31, 2010.

Flight Equipment Recoverability (Financial Services):

Expected undiscounted future net cash flows: based upon current lease rates, projected future lease rates and lease periods and estimated residual or sales values of each aircraft based on expectations regarding the use of the aircraft and market participants.

Other-Than-Temporary Impairments:

At each balance sheet date, AIG evaluates its available for sale securities holdings with unrealized losses. Prior to April 1, 2009, these reviews were conducted pursuant to accounting standards that were amended on that date. See Note 7 to the Consolidated Financial Statements for a discussion of AIG's process for evaluating other-than-temporary impairments under these prior accounting standards.

Fixed Maturity Securities

In April 2009, the Financial Accounting Standards Board issued a new accounting standard addressing recognition and presentation of other-than-temporary impairments, which amended the other-than-temporary impairment model for fixed maturity securities and requires additional disclosures. The impairment model for equity securities was not affected. See Note 2 to the Consolidated Financial Statements for additional discussion on the other-than-temporary impairments accounting standard.

In connection with AIG's adoption of the new other-than-temporary impairments accounting standard on April 1, 2009, AIG changed its process for determining other-than-temporary impairments with respect to available for sale fixed maturity securities. If AIG intends to sell a fixed maturity security or it is more likely than not that AIG will be required to sell a fixed maturity security before recovery of its amortized cost basis, and the fair value of the security is below amortized cost, an other-than-temporary impairment has occurred and the amortized cost is written down to current fair value, with a corresponding charge to earnings.

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For all other fixed maturity securities for which a credit impairment has occurred, the amortized cost is written down to the estimated recovery value with a corresponding charge to earnings. Additional fair value declines below recovery value, if any, are charged to unrealized appreciation (depreciation) of fixed maturity investments on which other-than-temporary credit impairments were taken (a component of accumulated other comprehensive income (loss)) because this is considered a non-credit impairment.

When assessing AIG's intent to sell a fixed maturity security, or if it is more likely than not that AIG will be required to sell a fixed maturity security before recovery of its amortized cost basis, management evaluates relevant facts and circumstances including, but not limited to, decisions to reposition AIG's investment portfolio, sale of securities to meet cash flow needs and sales of securities to capitalize on favorable pricing.

AIG considers severe price declines in its assessment of potential credit impairments. AIG also may modify its modeled outputs for certain securities when it determines that price declines are indicative of factors not comprehended by the cash flow models.

In periods subsequent to the recognition of an other-than-temporary impairment charge for available-for-sale fixed maturity securities that are not foreign exchange related, generally AIG prospectively accretes into earnings the difference between the new amortized cost and the expected undiscounted recovery value over the remaining expected holding period of the security.

See the discussion in Note 7 to the Consolidated Financial Statements for additional information on the methodology and significant inputs, by security type, that AIG uses to determine the amount of a credit loss on fixed maturity securities.

Equity Securities

AIG evaluates its available for sale equity securities, equity method and cost method investments for impairment such that a security is considered a candidate for other-than-temporary impairment if it meets any of the following criteria:

- Trading at a significant (25 percent or more) discount to cost for an extended period of time (nine consecutive months or longer);

- The occurrence of a discrete credit event resulting in (i) the issuer defaulting on a material outstanding obligation; (ii) the issuer seeking protection from creditors under the bankruptcy laws or any similar laws intended for court-supervised reorganization of insolvent enterprises; or (iii) the issuer proposing a voluntary reorganization pursuant to which creditors are asked to exchange their claims for cash or securities having a fair value substantially lower than par value of their claims; or

- AIG may not realize a full recovery on its investment, regardless of the occurrence of one of the foregoing events.

The determination that an equity security is other-than-temporarily impaired requires the judgment of management and consideration of the fundamental condition of the issuer, its near-term prospects and all the relevant facts and circumstances. The above criteria also consider circumstances of a rapid and severe market valuation decline for which AIG could not reasonably assert that the impairment period would be temporary (severity losses).

For further discussion, see Note 7 to the Consolidated Financial Statements.

Liability for Legal Contingencies:

AIG estimates and records a liability for potential losses that may arise from litigation and regulatory proceedings to the extent such losses are probable and can be estimated. Determining a reasonable estimate of the amount of such losses requires significant management judgment. In many such proceedings, it is not possible to determine whether a liability has been incurred or to estimate the ultimate or minimum amount of that liability until the matter is close to resolution. In view of the inherent difficulty of predicting the outcome of such matters,

particularly in cases in which claimants seek substantial or indeterminate damages, AIG often cannot predict the outcome or estimate the eventual loss or range of loss related to such matters.

U.S. Income Taxes on Earnings of Certain Foreign Subsidiaries:

Due to the complexity of the U.S. federal income tax laws involved in determining the amount of income taxes related to differences between book carrying value and tax basis of subsidiaries, as well as the level of judgment and reliance on reasonable assumptions and estimates in calculating this liability, AIG considers the U.S. federal income taxes accrued on the earnings of certain foreign subsidiaries to be a critical accounting estimate.

Valuation Allowance on Deferred Tax Assets:

AIG had a net deferred tax liability after valuation allowance of $1.3 billion at December 31, 2010, and a net deferred tax asset after valuation allowance of $5.9 billion at December 31, 2009.

AIG evaluates the recoverability of the deferred tax asset and establishes a valuation allowance, if necessary, to reduce the deferred tax asset to an amount that is more likely than not to be realized (a likelihood of more than 50 percent). Significant judgment is required to determine whether a valuation allowance is necessary and the amount of such valuation allowance, if appropriate.

When assessing the realization of its deferred tax asset, AIG considers all available evidence, including:

- the nature, frequency, and severity of cumulative financial reporting losses in recent years;
- the carryforward periods for the net operating loss, capital loss and foreign tax credit carryforwards;
- predictability of future operating profitability of the character necessary to realize the asset;
- certain transactions, including the recognition of the gains and losses on dispositions;
- prudent and feasible tax planning strategies that would be implemented, if necessary, to protect against the loss of the deferred tax asset; and
- the effect of reversing taxable temporary differences.

The evaluation of the recoverability of the deferred tax asset 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 assets 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. As part of the evaluation at December 31, 2010, despite several favorable developments, including the completion of the Recapitalization in January 2011, the wind-down of AIGFP's portfolios, and the sale of AGF, AIG has recent negative evidence of cumulative operating losses and a lack of predictable profits. Based on this evidence, AIG cannot assert that it is more likely than not that any U.S. member deferred tax assets will be realized as of December 31, 2010.

However, if in the future AIG demonstrates consistent profitability, ability to accurately project income by jurisdiction and the resultant annual effective tax rate, or develops prudent and feasible tax planning strategies, the evaluation of the recoverability of the deferred tax asset

could change and the valuation allowance could be released in whole or in part.

AIG has developed the comprehensive qualitative and quantitative assessment framework described above for evaluating the factors that would need to be considered each reporting period in assessing whether the deferred tax asset is more likely than not realizable.

Fair Value Measurements of Certain Financial Assets and Liabilities:

Overview

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

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

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

The degree of judgment used in measuring the fair value of financial instruments generally correlates with the level of observable valuation inputs. AIG maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. Financial instruments with quoted prices in active markets generally have more pricing observability and less judgment is used in measuring fair value. Conversely, financial instruments where no quoted prices are available have less observability and are measured at fair value using valuation models or other pricing techniques that require more judgment. Pricing observability is affected by a number of factors, including the type of

financial instrument, whether the financial instrument is new to the market, the characteristics specific to the transaction, liquidity and general market conditions.

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

Valuation service providers typically obtain data about market transactions and other key valuation model inputs from multiple sources and, through the use of widely accepted valuation models, provide a single fair value measurement for individual securities for which a fair value has been requested under the terms of service agreements. The inputs used by the valuation service providers include, but are not limited to, market prices from recently completed transactions and transactions of comparable securities, interest rate yield curves, credit spreads, currency rates, and other market-observable information, as applicable. The valuation models take into account, among other things, market observable information as of the measurement date as well as the specific attributes

of the security being valued, including its term, interest rate, credit rating, industry sector, and when applicable, collateral quality and other security or issuer-specific information. When market transactions or other market observable data is limited, the extent to which judgment is applied in determining fair value is greatly increased.

AIG employs specific control processes to determine the reasonableness of the fair values of AIG's financial assets and financial liabilities. AIG's processes are designed to ensure that the values received or internally estimated are accurately recorded and that the data inputs and the valuation techniques utilized are appropriate, consistently applied, and that the assumptions are reasonable and consistent with the objective of determining fair value. AIG assesses the reasonableness of individual security values received from valuation service providers through various analytical techniques. In addition, AIG may validate the reasonableness of fair values by comparing information obtained from AIG's valuation service providers to other third-party valuation sources for selected securities. AIG also validates prices for selected securities obtained from brokers through reviews by members of management who have relevant expertise and who are independent of those charged with executing investing transactions.

The following table presents the fair value of fixed income and equity securities by source of value determination:

At December 31, 2010 ***(in billions)***		**Fair Value**	**Percent of Total**
Fair value based on external sources[(a)]	$	238	89%
Fair value based on internal sources		28	11
Total fixed income and equity securities[(b)]	$	266	100%

(a) *Includes $22.3 billion for which the primary source is broker quotes.*

(b) *Includes available for sale and trading securities.*

See Note 6 to the Consolidated Financial Statements for more detailed information about AIG's accounting policy for the incorporation of credit risk in fair value measurements and the measurement of fair value of financial assets and financial liabilities.

Level 3 Assets and Liabilities

Assets and liabilities recorded at fair value in the Consolidated Balance Sheet are classified in a hierarchy for disclosure purposes consisting of three "levels" based on the observability of inputs available in the marketplace used to measure the fair value. See Note 6 to the Consolidated Financial Statements for additional information about the three levels of observability.

At December 31, 2010, AIG classified $36.3 billion and $6.2 billion of assets and liabilities, respectively, measured at fair value on a recurring basis as Level 3. This represented 5.3 percent and 1.1 percent of the total assets and liabilities, respectively, at December 31, 2010. At December 31, 2009, AIG classified $38.9 billion and $13.9 billion of assets and liabilities, respectively, measured at fair value on a recurring basis as Level 3. This represented 4.6 percent and 1.9 percent of the total assets and liabilities, respectively, at December 31, 2009. Level 3 fair value measurements are based on valuation techniques that use at least one significant input that is unobservable. These measurements are made under circumstances in which there is little, if any, market activity for the asset or liability. AIG's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment.

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

different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to

the fair value measurement in its entirety. AIG's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment. In making the assessment, AIG considers factors specific to the asset or liability. Assets and liabilities measured at fair value on a recurring basis and classified as Level 3 include certain RMBS, CMBS and collateralized debt obligations/asset-backed securities (CDO/ABS), corporate debt, certain municipal and sovereign debt, certain derivative contracts (including Capital Markets' super senior credit default swap portfolio), policyholder contract deposits carried at fair value, private equity and real estate fund investments, and direct private equity investments. AIG's non-financial instrument assets that are measured at fair value on a non-recurring basis generally are classified as Level 3.

Refer to Note 6 to the Consolidated Financial Statements for discussion of transfers of Level 3 assets and liabilities.

Valuation of Level 3 Assets and Liabilities

AIG values its assets and liabilities classified as Level 3 using judgment and valuation models or other pricing techniques that require a variety of inputs including contractual terms, market prices and rates, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs, some of which may be unobservable. The following paragraphs describe the methods AIG uses to measure on a recurring basis the fair value of the major classes of assets and liabilities classified in Level 3.

Private equity and real estate fund investments and certain hedge fund investments: These assets initially are valued at the transaction price, i.e., the price paid to acquire the asset. Subsequently, they are measured based on net asset value using information provided by the general partner or manager of these investments, the accounts of which generally are audited on an annual basis. AIG considers observable market data and performs diligence procedures in validating the appropriateness of using the net asset value as a fair value measurement.

Certain corporate bonds and private placement debt: These assets initially are valued at the transaction price. Subsequently, they are valued using market data for similar instruments (e.g., recent transactions, bond spreads or credit default swap spreads). When observable price quotations are not available, fair value is determined based on cash flow models using yield curves observed from indices or credit default swap spreads.

Certain RMBS and CMBS: These assets initially are valued at the transaction price. Subsequently, they may be valued by comparison to transactions in instruments with similar collateral and risk profiles considering remittances received and updated cumulative loss data on underlying obligations, or discounted cash flow techniques.

Certain ABS non-mortgage: These assets initially are valued at the transaction price. Subsequently, they may be valued based on external price/spread data. When position-specific external price data are not observable, the valuation is based on prices of comparable securities.

CDOs: These assets initially are valued at the transaction price. Subsequently, they are valued based on external price/spread data from independent third parties, dealer quotations, matrix pricing, the Binomial Expansion Technique (BET) model or a combination of these methods.

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

The fair value methodology used assumes that the underlying collateral in the Maiden Lane Interests will continue to be held and generate cash flows into the foreseeable future and does not assume a current liquidation

of the assets of the Maiden Lane Interests. Other methodologies employed or assumptions made in determining fair value for these investments could result in amounts that differ significantly from the amounts reported.

Refer to Note 6 to the Consolidated Financial Statements for sensitivity analysis disclosures with respect to the Maiden Lane Interests.

Capital Markets Super Senior Credit Default Swap Portfolio: AIGFP wrote credit protection on the super senior risk layer of collateralized loan obligations (CLOs), multi-sector CDOs and diversified portfolios of corporate debt, and prime residential mortgages. In these transactions, AIGFP is at risk of credit performance on the super senior risk layer related to such assets. To a lesser extent, AIGFP also wrote protection on tranches below the super senior risk layer, primarily in respect of regulatory capital relief transactions.

The following table presents the net notional amount, fair value of derivative (asset) liability and unrealized market valuation gain (loss) of the Capital Markets 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 December 31,		Fair Value of Derivative (Asset) Liability at December 31,		Unrealized Market Valuation Gain (Loss) Year Ended December 31,	
(in millions)	**2010[a]**	**2009[a]**	**2010[b][c]**	**2009[b][c]**	**2010[c]**	**2009[c]**
Regulatory Capital:						
Corporate loans	**$ 5,193**	$ 55,010	**$ -**	$ -	**$ -**	$ -
Prime residential mortgages	**31,613**	93,276	**(190)**	(137)	**53**	137
Other	**1,263**	1,760	**17**	21	**4**	35
Total	**38,069**	150,046	**(173)**	(116)	**57**	172
Arbitrage:						
Multi-sector CDOs[d]	**6,689**	7,926	**3,484**	4,418	**663**	(669)
Corporate debt/CLOs[e]	**12,269**	22,076	**171**	309	**(67)**	1,863
Total	**18,958**	30,002	**3,655**	4,727	**596**	1,194
Mezzanine tranches[f]	**2,823**	3,478	**198**	143	**(55)**	52
Total	**$ 59,850**	$ 183,526	**$ 3,680**	$ 4,754	**$ 598**	$ 1,418

(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 gains (losses) of ($133) million and $52 million in the years ended December 31, 2010 and 2009, respectively, representing the effect of changes in AIG's credit spreads on the valuation of the derivatives liabilities.*

(d) *During 2010, AIGFP terminated a super senior CDS transaction with its counterparty with a net notional amount of $296 million, included in Multi-sector CDOs. This transaction was terminated at approximately its fair value at the time of the termination. As a result, a $202 million loss, which was previously included in the fair value derivative liability as an unrealized market valuation loss, was realized. During 2010, AIGFP also paid $69 million to its counterparty with respect to multi-sector CDOs. Upon payment, a $69 million loss, which was previously included in the fair value*

derivative liability as an unrealized market valuation loss, was realized. Multi-sector CDOs also include $5.5 billion and $6.3 billion in net notional amount of credit default swaps written with cash settlement provisions at December 31, 2010 and December 31, 2009, respectively.

(e) *During 2010, AIGFP terminated super senior CDS transactions with its counterparties with a net notional amount of $9.3 billion, included in Corporate debt/CLOs. These transactions were terminated at approximately their fair value at the time of the termination. As a result, an $83 million loss, which was previously included in the fair value derivative liability as an unrealized market valuation loss, was realized. In addition, AIGFP made a one time payment of $122 million in 2010 to an intermediary in exchange for eliminating all future collateral posting requirements on $10.7 billion of net notional of Corporate debt transactions. Corporate debt/CLOs also include $1.3 billion and $1.4 billion in net notional amount of credit default swaps written on the super senior tranches of CLOs at December 31, 2010 and December 31, 2009, respectively.*

(f) *Net of offsetting purchased CDS of $1.4 billion and $1.5 billion in net notional amount at December 31, 2010 and December 31, 2009, respectively.*

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American International Group, Inc., and Subsidiaries

The following table presents changes in the net notional amount of the Capital Markets super senior credit default swap portfolio, including credit default swaps written on mezzanine tranches of certain regulatory capital relief transactions:

(in millions)	Net Notional Amount December 31, 2009[(a)]	Terminations	Maturities	Effect of Foreign Exchange Rates[(b)]	Amortization/ Reclassification, net of Replenishments	Net Notional Amount December 31, 2010[(a)]
Regulatory Capital:						
Corporate loans	$ 55,010	$ (37,080)	$ (13)	$ (2,835)	$ (9,889)	$ 5,193
Prime residential mortgages	93,276	(46,991)	-	(4,109)	(10,563)	31,613
Other	1,760	-	-	(68)	(429)	1,263
Total	150,046	(84,071)	(13)	(7,012)	(20,881)	38,069
Arbitrage:						
Multi-sector CDOs[(c)]	7,926	(296)	-	(212)	(729)	6,689
Corporate debt/CLOs[(d)]	22,076	(9,291)	-	(482)	(34)	12,269
Total	30,002	(9,587)	-	(694)	(763)	18,958
Mezzanine tranches[(e)]	3,478	(530)	-	(96)	(29)	2,823
Total	$ 183,526	$ (94,188)	$ (13)	$ (7,802)	$ (21,673)	$ 59,850

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

(b) *Relates to the strengthening of the U.S. dollar, primarily against the Euro and the British Pound.*

(c) *Includes $5.5 billion and $6.3 billion in net notional amount of credit default swaps written with cash settlement provisions at December 31, 2010 and December 31, 2009, respectively.*

(d) *Includes $1.3 billion and $1.4 billion in net notional amount of credit default swaps written on the super senior tranches of CLOs at December 31, 2010 and December 31, 2009, respectively.*

(e) *Net of offsetting purchased CDS of $1.4 billion and $1.5 billion in net notional amount at December 31, 2010 and December 31, 2009, respectively.*

The following table presents summary statistics for Capital Markets super senior credit default swaps at December 31, 2010 and totals for December 31, 2010 and 2009:

	Regulatory Capital Portfolio				Arbitrage Portfolio				Total	
Category	Corporate Loans	Prime Residential Mortgages	Other	Subtotal	Corporate Debt/ CLOs	Multi-Sector CDOs w/ Subprime	Multi-Sector CDOs w/ No Subprime	Subtotal	December 31, 2010	December 31, 2009

Gross Transaction Notional Amount (in millions)	$ 7,184	$ 36,905	$ 1,481	$ 45,570	$ 18,217	$ 5,682	$ 8,836	$ 32,735	**$ 78,305**	$ 246,215
Net Notional Amount (in millions)	$ 5,193	$ 31,613	$ 1,263	$ 38,069	$ 12,269	$ 3,216	$ 3,473	$ 18,958	**$ 57,027**	$ 180,048
Number of Transactions	6	9	1	16	15	9	6	30	**46**	71
Weighted Average Subordination (%)	27.70%	14.31%	14.78%	16.44%	24.10%	30.53%	24.51%	25.33%	**20.16%**	18.67%
Weighted Average Number of loans/ Transaction	3,342	87,812	1,802	71,700	118	138	115			
Weighted Average Expected Maturity (Years)	1.18	3.47	4.78	3.16	5.00	6.68	5.66			

General Contractual Terms

AIGFP entered into CDS transactions in the ordinary course of its business. In the majority of AIGFP's credit derivative transactions, AIGFP sold credit protection on a designated portfolio of loans or debt securities. Generally, AIGFP provides such credit protection on a "second loss" basis, meaning that AIGFP will incur credit losses only after a shortfall of principal and/or interest, or other credit events, in respect of the protected loans and debt securities, exceeds a specified threshold amount or level of "first loss."

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

The following graphic represents a typical structure of a transaction including the super senior risk layer:

Regulatory Capital Portfolio

During 2010, $84.1 billion in net notional amount of regulatory capital CDSs were terminated or matured at no cost to AIGFP. Through February 16, 2011, AIGFP had also received termination notices with respect to an additional $1.4 billion in net notional amount with an effective termination date in 2011. AIGFP continues to reassess the expected maturity of this portfolio. As of December 31, 2010, AIGFP estimated that the weighted average expected maturity of the portfolio was 3.16 years. AIGFP has not been required to make any payments as part of terminations initiated by counterparties. The regulatory benefit of these transactions for AIGFP's financial institution counterparties was generally derived from Basel I. In December 2010, the Basel Committee on Banking Supervision finalized Basel III, which, when fully implemented, may reduce or eliminate the regulatory benefits to certain counterparties for these transactions, and this may reduce the period of time that such counterparties are expected to hold the positions. In prior years, it had been expected that financial institution counterparties would

complete a transition from Basel I to an intermediate standard known as "Basel II," which could have had similar effects on the benefits of these transactions, at the end of 2009. Basel III has now superseded Basel II, but the details of its implementation by the various European Central Banking districts have not been finalized. Should certain counterparties continue to receive favorable regulatory capital benefits from these transactions, those counterparties may not exercise their options to terminate the transactions in the expected time frame.

The weighted average expected maturity of the Regulatory Capital Portfolio increased as of December 31, 2010 by approximately 1.8 years from December 31, 2009 due to certain counterparties not terminating transactions with a combined net notional amount of $6.0 billion. Where these counterparties continue to have a right to terminate the transaction early, AIGFP has extended the expected maturity dates by one year, which is based on how long AIGFP believes the relevant rules under Basel I will remain effective. Where the counterparties no longer have the right to terminate early, AIGFP has used the weighted average life of those transactions as their expected maturity. These counterparties in the Corporate Loan and Prime Residential Mortgage portfolios continue to receive favorable regulatory capital benefits under Basel I rules and, thus, AIG continues to categorize them as Regulatory Capital transactions.

Included in the Regulatory Capital portfolio are transactions with one counterparty that notified AIG that it would not terminate early two of its Prime Residential Mortgage transactions and a related mezzanine transaction with a combined net notional amount of $24.3 billion that were expected to be terminated in the first quarter of 2010. With respect to these transactions, the counterparty no longer has any rights to terminate the transactions early and is required to pay AIG fees on the original notional amounts reduced only by realized losses through the final contractual maturity. Since the two transactions have weighted average lives that are considerably less than their final contractual maturities, there is value to AIGFP representing counterparty contractual fees to be received beyond the date at which the net notional amounts have fully amortized through to the final contractual maturity date. The fair value of these two super senior transactions as of December 31, 2010 was a derivative asset of $190 million. With respect to these two transactions, AIGFP has also written CDS transactions on the mezzanine tranches of these portfolios; however, the majority of the transactions on the mezzanine tranches were hedged by AIGFP with other third-party CDS transactions. In October 2008, following a credit ratings agency downgrade of AIG, AIGFP entered into a CSA to the agreements governing the transactions with this counterparty that requires AIGFP to post collateral. The CSA provides that one of two methodologies will be used for determining the amount of collateral to be posted. The same methodology has been used throughout the term of the CSA, and, at December 31, 2010, AIGFP had posted approximately $217 million of collateral. The counterparty has provided quotations from two dealers that it contends support using the second methodology, and contends that a total amount of Euro 1.4 billion (approximately $1.9 billion) should be posted by AIGFP or, in the alternative, that the parties approach market participants jointly to obtain qualifying quotations. AIGFP continues to believe that the methodology currently being used is the correct one for computing collateral, that it has posted the amount of collateral required under the CSA, that the counterparty has not provided qualifying quotations and that the methodology the counterparty has used for calculating the amount of collateral to be posted is not valid.

In light of early termination experience to date and after analyses of other market data, to the extent deemed relevant and available, AIG determined that there was no unrealized market valuation adjustment for any of the transactions in this regulatory capital relief portfolio for 2010 other than (1) for transactions where AIGFP believes the counterparty is no longer using the transaction to obtain regulatory capital relief as discussed above and (2) for transactions where the counterparty has failed to terminate the transaction early as expected and no longer has any rights to terminate early in the future. Although AIGFP believes the value of contractual fees receivable on these transactions through maturity exceeds the economic benefits of any potential payments to the counterparties, the counterparties' early termination rights, and AIGFP's expectation that such rights will be exercised, preclude the recognition of a derivative asset for these transactions.

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American International Group, Inc., and Subsidiaries

The following table presents for each of the regulatory capital CDS transactions in the corporate loan portfolio, the gross transaction notional amount, net notional amount, attachment points, inception to date realized losses and percent non-investment grade:

(dollars in millions) CDS	Gross Transaction Notional Amount at December 31, 2010	Net Notional Amount at December 31, 2010	Attachment Point at Inception[(a)]	Attachment Point at December 31, 2010[(a)]	Realized Losses through December 31, 2010[(b)]	Percent Non-investment Grade at December 31, 2010[(c)]
1	$ 360	$ 264	10.03%	26.51%	0.52%	47.35%
2	1,287	1,051	10.00%	18.31%	0.20%	45.42%
3	2,965	2,453	13.26%	17.25%	0.00%	67.10%
4[(d)]	703	383	14.00%	44.61%	0.16%	34.29%
5[(d)]	569	259	14.00%	44.61%	0.16%	34.29%
6[(d)]	1,300	783	14.00%	44.61%	0.16%	34.29%
Total	$ 7,184	$ 5,193				

(a) *Expressed as a percentage of gross transaction notional amount of the referenced obligations. As a result of participation ratios and replenishment rights, the attachment point may not always be computed by dividing net notional amount by gross transaction notional amount.*

(b) *Represents realized losses incurred by the transaction (defaulted amounts less amounts recovered) from inception through December 31, 2010 expressed as a percentage of the initial gross transaction notional amount.*

(c) *Represents non-investment grade obligations in the underlying pools of corporate loans expressed as a percentage of gross transaction notional amount.*

(d) *Terminated effective March 15, 2011.*

The following table presents, for each of the regulatory capital CDS transactions in the prime residential mortgage portfolio, the gross transaction notional amount, net notional amount, attachment points and inception to date realized losses:

(dollars in millions) CDS	Gross Transaction Notional Amount at December 31, 2010	Net Notional Amount at December 31, 2010	Attachment Point at Inception[(a)]	Attachment Point at December 31, 2010[(a)]	Realized Losses through December 31, 2010[(b)]
1	$ 387	$ 179	17.01%	52.35%	2.61%
2	234	97	18.48%	58.08%	2.15%
3	221	130	16.81%	40.99%	1.72%
4	269	184	13.19%	31.62%	0.50%
5[(c)]	1,456	1,102	7.95%	24.13%	0.06%
6	9,048	8,250	7.50%	8.82%	0.08%
7	2,049	1,568	12.40%	23.48%	0.00%
8	18,143	16,080	9.20%	11.37%	0.12%
9	5,098	4,023	11.50%	21.08%	0.00%

Total	$	36,905	$	31,613

(a) *Expressed as a percentage of gross transaction notional amount of the referenced obligations. As a result of participation ratios and replenishment rights, the attachment point may not always be computed by dividing net notional amount by gross transaction notional amount.*

(b) *Represents realized losses incurred by the transaction (defaulted amounts less amounts recovered) from inception through December 31, 2010 expressed as a percentage of the initial gross transaction notional amount.*

(c) *Delinquency information is not provided to Capital Markets for the underlying pools of residential mortgages of this transaction. However, information with respect to principal amount outstanding, defaults, recoveries, remaining term, property use, geography, interest rates, and ratings of the underlying junior tranches are provided to Capital Markets for such referenced pools.*

All of the regulatory capital CDS transactions directly or indirectly reference tranched pools of large numbers of whole loans that were originated by the financial institution (or its affiliates) receiving the credit protection, rather than structured securities containing loans originated by other third parties. In the vast majority of transactions, the loans are intended to be retained by the originating financial institution and in all cases the originating financial institution is the purchaser of the CDS, either directly or through an intermediary.

As further discussed below, AIGFP receives information monthly or quarterly regarding the performance and credit quality of the underlying referenced assets. AIGFP also obtains other information, such as ratings of the tranches below the super senior risk layer. The nature of the information provided or otherwise available to AIGFP with respect to the underlying assets in each regulatory capital CDS transaction is not consistent across all transactions. Furthermore, in a majority of corporate loan transactions and all of the residential mortgage transactions, the pools are blind, meaning that the identities of the obligors are not disclosed to AIGFP. In addition, although AIGFP receives periodic reports on the underlying asset pools, virtually all of the regulatory capital CDS transactions contain confidentiality restrictions that preclude AIGFP's public disclosure of information relating to the underlying referenced assets. The originating financial institutions, calculation agents or trustees (each a Report Provider) provide periodic reports on all underlying referenced assets as described below, including for those within the blind pools. While much of this information received by AIGFP cannot be aggregated in a comparable way for disclosure purposes because of the confidentiality restrictions and the inconsistency of the information, it does provide a sufficient basis for AIGFP to evaluate the risks of the portfolio and to determine a reasonable estimate of fair value.

For regulatory capital CDS transactions written on underlying pools of corporate loans, AIGFP receives monthly or quarterly updates from one or more Report Providers for each such referenced pool detailing, with respect to the corporate loans comprising such pool, the principal amount outstanding and defaults. In virtually all of these reports, AIGFP also receives information on recoveries and realized losses. AIGFP also receives quarterly stratification tables for each pool incorporating geography, industry and, when not publicly rated, the counterparty's assessment of the credit quality of the underlying corporate loans. Additionally, for a significant majority of these regulatory capital CDS transactions, upon the occurrence of a credit event with respect to any corporate loan included in any such pool, AIGFP receives a notice detailing the identity or identification number of the borrower, notional amount of such loan and the effective date of such credit event.

Ratings from independent ratings agencies for the underlying assets of the corporate loan portfolio are not universally available, but AIGFP estimates the ratings for the assets not rated by independent agencies by mapping the information obtained from the Report Providers to rating agency criteria. The "Percent Non-Investment Grade" information in the table above is provided as an indication of the nature of loans underlying the transactions, not necessarily as an indicator of relative risk of the CDS transactions, which is determined by the individual transaction structures. For example, Small and Medium Enterprise (SME) loan balances tend to be rated lower than loans to large, well-established enterprises. However, the greater number of loans and the smaller average size of the SME loans mitigate the risk profile of the pools. In addition, the transaction structures reflect AIGFP's assessment of the loan collateral arrangements, expected recovery values, and reserve accounts in determining the level of subordination required to minimize the risk of loss. The percentage of non-investment grade obligations in the underlying pools of corporate loans varies considerably. One pool containing the highest percentages of non-investment grade obligations, which include all transactions with pools having non-investment grade percentages greater than 50.00 percent, are all granular SME loan pools which benefit from collateral arrangements made by the originating financial institutions and from work out of recoveries by the originating financial institutions. The number of loans in this pool is 7,297. This large number of SME loans increases the predictability of the expected loss and lessens the probability that discrete events will have a meaningful impact on the results of the overall pool. These transactions benefit from a tranche junior to it which was still rated AAA by at least two rating agencies at December 31, 2010. Five other pools, with a total net notional amount of $2.7 billion, have non-investment grade percentages less than 50 percent, with a weighted average remaining life to maturity of 10.8 years. These pools have weighted average realized losses of 0.20 percent from inception through December 31, 2010 and have current weighted average attachment points of 35.04 percent.

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Approximately 3.51 percent of the assets underlying the corporate loan transactions are in default. The percentage of assets in default by transaction was available for all transactions and ranged from 2.09 percent to 4.50 percent.

For regulatory capital CDS transactions written on underlying pools of residential mortgages, AIGFP receives quarterly reports for each such referenced pool detailing, with respect to the residential mortgages comprising such pool, the aggregate principal amount outstanding, defaults and realized losses. These reports include additional information on delinquencies for the large majority of the transactions and recoveries for substantially all transactions. AIGFP also receives quarterly stratification tables for each pool incorporating geography for the underlying residential mortgages. The stratification tables also include information on remaining term, property use and interest rates for a large majority of the transactions.

Delinquency information for the mortgages underlying the residential mortgage transactions was available on approximately 96.06 percent of the total gross transaction notional amount and mortgages delinquent more than 30 days ranged from 0.13 percent to 2.44 percent, averaging 0.77 percent. Except for one transaction, which comprised less than 1.25 percent of the total gross transaction notional amount, the average default rate (expressed as a percentage of gross transaction notional amount) was 0.26 percent and the default rates ranged from 0.00 percent to 5.28 percent. The default rate on this one transaction was 19.84 percent with a subordination level of 52.35 percent.

For all regulatory capital transactions, where the rating agencies directly rate the junior tranches of the pools, AIG monitors the rating agencies' releases for any affirmations or changes in such ratings, as well as any changes in rating methodologies or assumptions used by the rating agencies to the extent available. The tables below show the percentage of regulatory capital CDS transactions where there is an immediately junior tranche that is rated and the average rating of that tranche across all rated transactions.

AIGFP analyzes the information regarding the performance and credit quality of the underlying pools of assets to make its own risk assessment and to determine any changes in credit quality with respect to such pools of assets. This analysis includes a review of changes in pool balances, subordination levels, delinquencies, realized losses and expected performance under more adverse credit conditions. Using data provided by the Report Providers, and information available from rating agencies, governments, and other public sources that relate to macroeconomic trends and loan performance, AIGFP is able to analyze the expected performance of the overall portfolio because of the large number of loans that comprise the collateral pools.

Given the current performance of the underlying portfolios, the level of subordination and AIGFP's own assessment of the credit quality, as well as the risk mitigants inherent in the transaction structures, AIGFP does not expect that it will be required to make payments pursuant to the contractual terms of those transactions providing regulatory relief. Further, AIGFP expects that counterparties will, to the extent they retain termination rights, continue to terminate these transactions prior to their maturity.

The following table presents the Capital Markets Regulatory Capital CDS transactions in the Corporate loans portfolio by geographic location:

At December 31, 2010					Weighted Average Maturity (Years)			Ratings of Junior Tranches[d]	
Exposure Portfolio	Net Notional Amount (in millions)	Percent of Total	Current Average Attachment Point[a]	Realized Losses through December 31, 2010[b]	To First Call[c]	To Maturity	Number of Transactions	Percent Rated	Average Rating
Primarily Single Country									
Germany	$ 3,768	72.56%	18.27%	0.11%	1.73	8.39	3	100%	A+
	1,425	27.44%	44.61%	0.16%	0.19	15.20	3	100	A

Regional Europe										
Total	$	5,193	100.00%	27.70%	0.13%	1.18	10.83	6	100	A+

(a) *Expressed as a percentage of gross transaction notional amount of the referenced obligations*

(b) *Represents realized losses incurred by the transaction (defaulted amounts less amounts recovered) from inception through December 31, 2010 expressed as a percentage of the initial gross transaction notional amount.*

(c)
Where no call right remains, the weighted average expected maturity is used.

(d)
Represents the weighted average ratings, when available, of the tranches immediately junior to Capital Markets' super senior tranche. The percentage rated represents the percentage of net notional amount where there exists a rated tranche immediately junior to Capital Markets' super senior tranche.

The following table presents the Capital Markets Regulatory Capital CDS transactions in the Prime residential mortgage portfolio summarized by geographic location:

At December 31, 2010	Net Notional Amount (in millions)	Percent of Total	Current Average Attachment Point[a]	Realized Losses through December 31, 2010[b]	Weighted Average Maturity (Years) To First Call[c]	To Maturity	Number of Transactions	Ratings of Junior Tranches[d] Percent Rated	Average Rating
Country:									
Denmark	$ 24,330	76.96%	10.52%	0.10%	4.52	28.74	2	100%	AAA
France	1,102	3.49	24.13%	0.06%	0.97	27.97	1	100	AAA
Germany	2,158	6.82	31.49%	0.92%	1.12	38.68	5	100	AAA
Sweden	4,023	12.73	21.08%	0.00%	0.09	29.09	1	100	AAA
Total	$ 31,613	100.00%	14.31%	0.19%	3.47	29.61	9	100%	AAA

(a)
Expressed as a percentage of gross transaction notional amount of the referenced obligations.

(b)
Represents realized losses incurred by the transaction (defaulted amounts less amounts recovered) from inception through December 31, 2010 expressed as a percentage of the initial gross transaction notional amount.

(c)
Where no call right remains, the weighted average expected maturity is used.

(d)
Represents the weighted average ratings, when available, of the tranches immediately junior to AIGFP's super senior tranche. The percentage rated represents the percentage of net notional amount where there exists a rated tranche immediately junior to AIGFP's super senior tranche.

Arbitrage Portfolio

A portion of the Capital Markets super senior credit default swaps as of December 31, 2010 are arbitrage-motivated transactions written on multi-sector CDOs or designated pools of investment grade senior unsecured corporate debt or CLOs.

Multi-Sector CDOs

The following table summarizes gross transaction notional amount of the multi-sector CDOs on which AIGFP wrote protection on the super senior tranche, subordination below the super senior risk layer, net notional amount and fair value of derivative liability by underlying collateral type:

At December 31, 2010	Gross Transaction Notional	Subordination Below the Super Senior	Net Notional Amount	Fair Value of Derivative Liability

(in millions)	**Amount[(a)]**	**Risk Layer**		
High grade with sub-prime collateral	$ 3,093	$ 1,609	$ 1,484	$ 578
High grade with no sub-prime collateral	7,187	4,511	2,676	1,050
Total high grade[(b)]	10,280	6,120	4,160	1,628
Mezzanine with sub-prime collateral	2,589	857	1,732	1,287
Mezzanine with no sub-prime collateral	1,649	852	797	569
Total mezzanine[(c)]	4,238	1,709	2,529	1,856
Total	$ 14,518	$ 7,829	$ 6,689	$ 3,484

(a) *Total outstanding principal amount of securities held by a CDO.*

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(b) *"High grade" refers to transactions in which the underlying collateral credit ratings on a stand-alone basis were predominantly AA or higher at origination.*

(c) *"Mezzanine" refers to transactions in which the underlying collateral credit ratings on a stand-alone basis were predominantly A or lower at origination.*

The following table summarizes net notional amounts of the remaining multi-sector CDOs on which AIGFP wrote protection on the super senior tranche, by settlement alternative and currency:

At December 31, *(in millions)*	**2010**	2009
CDS transactions with cash settlement provisions		
U.S. dollar-denominated	**$ 4,010**	$ 4,580
Euro-denominated	**1,475**	1,720
Total CDS transactions with cash settlement provisions	**5,485**	6,300
CDS transactions with physical settlement provisions		
U.S. dollar-denominated	**68**	265
Euro-denominated	**1,136**	1,361
Total CDS transactions with physical settlement provisions	**1,204**	1,626
Total	**$ 6,689**	$ 7,926

The following table summarizes changes in the fair values of the derivative liability of the Capital Markets super senior multi-sector CDO credit default swap portfolio:

Years Ended December 31, *(in millions)*	**2010**	2009
Fair value of derivative liability, beginning of year	**$ 4,418**	$ 5,906
Unrealized market valuation (gain) loss	**(663)**	669
Purchases of underlying CDO securities	**-**	(234)
Other terminations and realized losses	**(271)**	(1,923)
Fair value of derivative liability, end of year	**$ 3,484**	$ 4,418

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The following table presents, for each multi-sector CDO that is a reference obligation in a CDS written by AIGFP, the gross and net notional amounts, attachment points and percentage of gross notional amount rated less than B-/B-3:

(dollars in millions) CDO	Gross Notional Amount at December 31, 2010	Net Notional Amount at December 31, 2010	Attachment Point at Inception[(a)]	Attachment Point at December 31, 2010[(a)]	Percentage of Gross Notional Amount Rated Less than B-/B-3 at December 31, 2010
1	$ 954	$ 406	40.00%	57.48%	62.84%
2	677	327	53.00%	51.67%	51.63%
3	973	470	53.00%	51.70%	79.56%
4	1,078	304	76.00%	71.84%	86.58%
5	746	3	10.83%	1.55%	29.59%
6	227	188	39.33%	17.13%	86.20%
7	857	432	12.27%	6.61%	6.15%
8	984	704	25.24%	23.29%	7.80%
9	1,269	1,177	10.00%	7.24%	35.61%
10	2,188	1,475	16.50%	18.75%	3.25%
11	317	175	32.00%	44.78%	83.96%
12	389	389	24.49%	0.00%*(b)*	75.30%
13	462	389	32.90%	15.90%	98.80%
14	240	185	34.51%	22.69%	97.42%
15	3,157	65	9.72%	19.56%	78.46%
Total	$ 14,518	$ 6,689			

(a) *Expressed as a percentage of gross notional amount of the referenced obligations. As a result of participation ratios and partial terminations, the attachment point may not always be computed by dividing net notional amount by gross notional amount.*

(b) *AIGFP began making payments on realized losses in excess of the attachment point on this trade in 2010.*

In a number of instances, the level of subordination with respect to individual CDOs has increased since inception relative to the overall size of the CDO. While the super senior tranches are amortizing, subordinate layers have not been reduced by realized losses to date. Such losses are expected to emerge in the future. At inception, substantially all of the underlying assets were rated B-/B3 or higher and in most cases at least BBB or Baa. Thus, the percentage of gross notional amount rated less than B-/B3 represents a deterioration in the credit quality of the underlying assets.

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American International Group, Inc., and Subsidiaries

The following table summarizes the gross transaction notional amount, percentage of the total CDO collateral pools and ratings and vintage breakdown of collateral securities in the multi-sector CDOs, by asset-backed securities (ABS) category:

At December 31, 2010
(in millions)

ABS Category		Gross Transaction Notional Amount	Percent of Total	Ratings AAA	AA	A	BBB	BB	<BB	NR	Vintage 2008	2007	2006	2005+P
RMBS Prime	$	1,516	10.44%	0.40%	0.01%	0.10%	0.01%	0.07%	9.85%	0.00%	0.44%	5.96%	3.13%	0.91%
RMBS Alt-A		2,470	17.01%	0.12%	0.08%	0.21%	0.22%	0.03%	16.35%	0.00%	0.53%	4.96%	6.69%	4.83%
RMBS Subprime		2,867	19.75%	0.48%	0.68%	0.38%	0.54%	0.63%	17.04%	0.00%	0.00%	1.06%	1.77%	16.92%
CMBS		3,134	21.59%	0.72%	1.75%	1.92%	2.66%	2.13%	12.27%	0.14%	0.11%	1.98%	9.43%	10.07%
CDO		1,604	11.05%	0.08%	0.59%	0.89%	1.10%	1.16%	7.08%	0.15%	0.00%	0.68%	2.02%	8.35%
Other		2,927	20.16%	4.68%	4.40%	5.28%	3.25%	1.33%	1.08%	0.14%	0.60%	1.17%	5.66%	12.73%
Total	$	14,518	100.00%	6.48%	7.51%	8.78%	7.78%	5.35%	63.67%	0.43%	1.68%	15.81%	28.70%	53.81%

Corporate Debt/CLOs

The corporate arbitrage portfolio consists principally of CDS written on portfolios of corporate obligations that were generally rated investment grade at the inception of the CDS. These CDS transactions require cash settlement. This portfolio also includes CDS with a net notional amount of $1.3 billion written on the senior part of the capital structure of CLOs, which require physical settlement.

The following table summarizes gross transaction notional amount of CDS transactions written on portfolios of corporate obligations, percentage of the total referenced portfolios, and ratings by industry sector, in addition to the subordinations below the super senior risk layer, AIGFP's net notional amounts and fair value of derivative liability:

At December 31, 2010 *(in millions)*		Gross Transaction Notional Amount	Percent of Total	Ratings Aa	A	Baa	Ba	<Ba	NR
Industry Sector									
United States									
Industrial	$	6,017	33.0%	0.1%	3.4%	16.3%	4.0%	6.7%	2.5%
Financial		1,591	8.7%	0.1%	2.9%	3.0%	0.1%	1.7%	0.9%
Utilities		459	2.5%	0.0%	0.1%	2.1%	0.0%	0.2%	0.1%
Other		92	0.5%	0.0%	0.1%	0.1%	0.0%	0.0%	0.3%

Total United States		8,159	44.7%	0.2%	6.5%	21.5%	4.1%	8.6%	3.8%
Non-United States									
Industrial		8,101	44.5%	0.2%	5.0%	10.9%	4.7%	4.9%	18.8%
Financial		870	4.8%	0.2%	1.9%	1.4%	0.1%	0.4%	0.8%
Government		557	3.1%	0.0%	1.0%	1.5%	0.2%	0.0%	0.4%
Utilities		329	1.8%	0.0%	0.1%	0.6%	0.0%	0.3%	0.8%
Other		201	1.1%	0.0%	0.7%	0.0%	0.0%	0.0%	0.4%
Total Non-United States		10,058	55.3%	0.4%	8.7%	14.4%	5.0%	5.6%	21.2%
Total gross transaction notional amount		18,217	100.0%	0.6%	15.2%	35.9%	9.1%	14.2%	25.0%
Subordination		5,948							
Net Notional Amount	$	12,269							
Fair Value of Derivative Liability	$	171							

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American International Group, Inc., and Subsidiaries

The following table presents, for each of the corporate debt and CLO CDS transactions, the net notional amounts, attachment points and inception to date defaults:

(dollars in millions) CDS	Type	Net Notional Amount at December 31, 2010	Attachment Point at Inception[(a)]	Attachment Point at December 31, 2010[(a)]	Defaults through December 31, 2010[(b)]
1	Corporate Debt	$ 1,554	21.76%	18.94%	6.16%
2	Corporate Debt	5,267	22.00%	20.23%	3.76%
3	Corporate Debt	987	22.14%	20.21%	3.61%
4	Corporate Debt	982	20.80%	18.16%	5.26%
5	Corporate Debt	214	28.00%	27.68%	1.01%
6	Corporate Debt	640	24.00%	22.42%	4.46%
7	Corporate Debt	1,286	24.00%	22.32%	4.63%
8	CLO	171	35.85%	37.78%	3.11%
9	CLO	129	43.76%	43.69%	1.02%
10	CLO	190	44.20%	43.65%	4.31%
11	CLO	77	44.20%	43.65%	4.31%
12	CLO	144	44.20%	43.65%	4.31%
13	CLO	170	31.76%	32.30%	4.14%
14	CLO	338	30.40%	31.12%	0.00%
15	CLO	120	31.23%	29.55%	0.75%
Total		$ 12,269			

(a) *Expressed as a percentage of gross transaction notional amount of the referenced obligations.*

(b) *Represents defaults (assets that are technically defaulted but for which the losses have not yet been realized) from inception through December 31, 2010 expressed as a percentage of the gross transaction notional amount at December 31, 2010.*

Triggers and Settlement Alternatives

At December 31, 2010, all outstanding regulatory capital CDS transactions and the majority of the arbitrage portfolio (comprising $15.3 billion or 81 percent of the net notional amount for the arbitrage portfolio at December 31, 2010 compared to $25.1 billion or 84 percent of the net notional amount for the arbitrage portfolio at December 31, 2009) have cash-settled structures in respect of a basket of reference obligations, where AIGFP's payment obligations may be triggered by payment shortfalls, bankruptcy and certain other events such as write-downs of the value of underlying assets (see Cash Settlement below). For the remainder of the CDS transactions in respect of the arbitrage portfolio (comprising $3.7 billion or 19 percent of the net notional amount for the arbitrage portfolio at December 31, 2010 compared to $4.9 billion or 16 percent of the net notional amount for the arbitrage portfolio at December 31, 2009), AIGFP's payment obligations are triggered by the occurrence of a credit event under a single reference security, and performance is limited to a single payment by AIGFP in return for physical delivery by the counterparty of the reference security (see Physical Settlement below).

Cash Settlement. Transactions requiring cash settlement (principally on a "pay as you go" basis) are generally in respect of baskets of reference credits (which may also include single-name CDS in addition to securities and loans) rather than a single reference obligation as in the case of the physically settled transactions described below. Under these credit default swap transactions:

Each time a "triggering event" occurs a "loss amount" is calculated. A triggering event is generally a failure by the relevant obligor to pay principal of or, in some cases, interest on one of the reference credits in the underlying basket. Triggering

events may also include bankruptcy of the obligors of the reference credits, write-downs or payment postponements with respect to interest or to the principal amount of a reference credit payable at maturity. The determination of the loss amount is specific to each triggering event. It can represent the amount of a shortfall in ordinary course interest payments on the reference credit, a write-down in the interest on or principal of such reference credit or payment postponed. It can also represent the difference between the notional or par amount of such reference credit and its market value, as determined by reference to market quotations. A "write-down" with respect to a referenced credit may

arise as a result of a reduction in the outstanding principal amount of such referenced credit (other than as a result of a scheduled or unscheduled payment of principal), whether caused by a principal deficiency, realized loss or forgiveness of principal. An implied write-down may also result from the existence of a shortfall between the referenced credit's pool principal balance and the aggregate balance of all *pari passu* obligations and senior securities backed by the same pool.

Triggering events can occur multiple times, either as a result of continuing shortfalls in interest or write-downs or payment postponements on a single reference credit, or as a result of triggering events in respect of different reference credits included in a protected basket. In connection with each triggering event, AIGFP is required to make a cash payment to the buyer of protection under the related CDS only if the aggregate loss amounts calculated in respect of such triggering event and all prior triggering events exceed a specified threshold amount (reflecting AIGFP's attachment point).

If there are reimbursements received (actual or deemed) by the CDS buyer in respect of prior triggering events, AIGFP will be entitled to receive equivalent amounts from the counterparty to the extent AIGFP has previously made a related payment.

Physical Settlement. For CDS transactions requiring physical settlement, AIGFP is generally required to pay unpaid principal and accrued interest for the relevant reference obligation in return for physical delivery of such reference obligation by the CDS buyer upon the occurrence of a credit event. After purchasing the reference obligation, AIGFP may sell the security and recover all or a portion of the purchase price paid under the CDS, or hold such security and be entitled to receive subsequent collections of principal and interest. AIGFP generally is required to settle such a transaction only if the following conditions are satisfied:

A "Credit Event" (as defined in the relevant CDS transaction confirmation) must have occurred. In all CDS transactions subject to physical settlement, "Failure to Pay" is specified as a Credit Event and is generally triggered if there is a failure by the issuer under the related CDO to make a payment under the reference obligation (after the expiration of any applicable grace period and, in certain transactions, subject to a nominal non-payment threshold having been met).

The CDS buyer must deliver the reference obligation within a specified period, generally within 30 days. There is no payment obligation if delivery is not made within this period.

Upon completion of the physical delivery and payment by AIGFP, AIGFP would be the holder of the relevant reference obligation and have all rights associated with a holder of such securities.

In addition to subordination, cash flow diversion mechanics may provide further protection from losses for holders of the super senior CDO securities. Following the acceleration of a CDO security, all, or a portion of, available cash flows in a CDO could be diverted from the junior tranches to the most senior tranches. In a CDO with such a feature, the junior tranches may not receive any cash flows until all interest on, and principal of, the super senior tranches are paid in full. Thus, potential losses borne by the holders of the super senior CDO securities may be mitigated as cash flows that would otherwise be payable to junior tranches throughout the entire CDO capital structure are instead diverted directly to the most senior tranches. Cash flow diversion mechanics also may arise in the context of over-collateralization tests. Upon a failure by the CDO issuer to comply with certain over-collateralization tests (other than those that trigger an indenture event of default), cash flows that would otherwise be payable to certain junior tranches throughout the CDO capital structure may instead be diverted to more senior tranches. Consequently, the super senior risk layer is paid down at a faster rate, effectively increasing the relative level of subordination.

The existence of a tranche of securities ranking *pari passu* with the super senior CDO securities does not provide additional subordination that protects holders of the super senior CDO securities, as holders of such *pari passu* securities are entitled to receive payments from available cash flows at the same level of priority as holders of the super senior securities. Thus, a *pari passu* tranche of securities does not affect the amount of losses that have to be absorbed by classes of CDO securities other than the super senior CDO securities before the super

senior securities incur a loss, although the *pari passu* tranche will absorb losses on a pro rata basis after subordinate classes of securities are exhausted.

2a-7 Puts: Included in the multi-sector CDO portfolio are maturity-shortening puts that allow the holders of the securities issued by certain CDOs to treat the securities as short-term 2a-7 eligible investments under the Investment Company Act of 1940 (2a-7 Puts). Holders of securities are required, in certain circumstances, to tender their securities to the issuer at par. If an issuer's remarketing agent is unable to resell the securities so tendered, AIGFP must purchase the securities at par so long as the security has not experienced a payment default or certain bankruptcy events with respect to the issuer of such security have not occurred.

At December 31, 2009, there were $1.6 billion of net notional amount of 2a-7 Puts issued by AIGFP outstanding. During 2010, AIGFP terminated all 2a-7 Puts in respect of notes held by holders other than AIGFP or its affiliates. AIGFP is not a party to any commitments to issue any additional 2a-7 Puts.

Termination Events. Certain of the super senior credit default swaps provide the counterparties with an additional termination right if AIG's rating level falls to BBB or Baa2. At that level, counterparties to the CDS transactions with the following net notional amounts, by portfolio, have the right to terminate the transactions early:

At December 31, 2010 ***(in millions)***	**Net Notional Amount**
Multi-sector CDO	$1,271
Corporate arbitrage	129
Regulatory capital	179
Total	$1,579

If counterparties exercise this right, the contracts provide for the counterparties to be compensated for the cost to replace the transactions, or an amount reasonably determined in good faith to estimate the losses the counterparties would incur as a result of the termination of the transactions.

Certain super senior credit default swaps written for regulatory capital relief, with a net notional amount of $32.6 billion at December 31, 2010, include triggers that require certain actions to be taken by AIG once AIG's rating level falls to certain levels, which, if not taken, give rise to a right of the counterparties to terminate the CDS. Such actions include posting collateral, transferring the swap or providing a guarantee from a more highly rated entity. AIGFP has implemented collateral arrangements in a large majority of these transactions. In the event of a termination of the contract that is caused by AIG's rating downgrade, AIGFP is obligated to compensate the counterparty based on its loss. As a result of AIGFP posting collateral, AIG eliminated the counterparties' right to terminate under this downgrade provision, thereby avoiding the uncertainty of determining the loss from an early termination of a regulatory capital CDS.

Collateral

Most of the Capital Markets credit default swaps are subject to collateral posting provisions. These provisions differ among counterparties and asset classes. Although AIGFP has collateral posting obligations associated with both regulatory capital relief transactions and arbitrage transactions, the large majority of these obligations to date have been associated with arbitrage transactions in respect of multi-sector CDOs.

The collateral arrangements in respect of the multi-sector CDO, regulatory capital and corporate arbitrage transactions are nearly all documented under a Credit Support Annex (CSA) to an ISDA Master Agreement (Master Agreement). The Master Agreement and CSA forms are standardized form agreements published by the ISDA, which market participants have adopted as the primary contractual framework for various kinds of derivatives transactions, including CDS. The Master Agreement and CSA forms are designed to be customized by counterparties to accommodate their particular requirements for the anticipated types of swap transactions to be entered into. Elective provisions and modifications of the standard terms are negotiated in connection with the

execution of these documents. The Master Agreement and CSA permit any provision contained in these documents to be further varied or overridden by the individual transaction confirmations, providing flexibility to tailor provisions to accommodate the requirements of any particular transaction. A CSA, if agreed by the parties to a Master Agreement, supplements and forms part of the Master Agreement and contains provisions (among others) for the valuation of the covered transactions, the delivery and release of collateral, the types of acceptable collateral, the grant of a security interest (in the case of a CSA governed by New York law) or the outright transfer of title (in the case of a CSA governed by English law) in the collateral that is posted, the calculation of the amount of collateral required, the valuation of the collateral provided, the timing of any collateral demand or return, dispute mechanisms, and various other rights, remedies and duties of the parties with respect to the collateral provided.

In general, each party has the right under a CSA to act as the "Valuation Agent" and initiate the calculation of the exposure of one party to the other (Exposure) in respect of transactions covered by the CSA. The valuation calculation may be performed daily, weekly or at some other interval, and the frequency is one of the terms negotiated at the time the CSA is signed. The definition of Exposure under a standard CSA is the amount that would be payable to one party by the other party upon a hypothetical termination of that transaction. This amount is determined, in most cases, by the Valuation Agent using its estimate of mid-market quotations (i.e., the average of hypothetical bid and ask quotations) of the amounts that would be paid for a replacement transaction. AIGFP determines Exposure typically by reference to the mark-to-market valuation of the relevant transaction produced by its systems and specialized models. Exposure amounts are typically determined for all transactions under a Master Agreement (unless the parties have specifically agreed to exclude certain transactions, not to apply the CSA or to set a specific transaction Exposure to zero). The aggregate Exposure less the value of collateral already held by the relevant party (and following application of certain thresholds) results in a net exposure amount (Delivery Amount). If this amount is a positive number, then the other party must deliver collateral with a value equal to the Delivery Amount. Under the standard CSA, the party not acting as Valuation Agent for any particular Exposure calculation may dispute the Valuation Agent's calculation of the Delivery Amount. If the parties are unable to resolve this dispute, the terms of the standard CSA provide that the Valuation Agent is required to recalculate Exposure using, in substitution for the disputed Exposure amounts, the average of actual quotations at mid-market from four leading dealers in the relevant market.

After an Exposure amount is determined for a transaction subject to a CSA, it is combined with the Exposure amounts for all other transactions under the relevant Master Agreement, which may be netted against one another where the counterparties to a Master Agreement are each exposed to one another in respect of different transactions. Actual collateral postings with respect to a Master Agreement may be affected by other agreed CSA terms, including threshold and independent amounts, that may increase or decrease the amount of collateral posted.

Regulatory Capital Relief Transactions

As of December 31, 2010, 85.7 percent of the Capital Markets regulatory capital relief transactions (measured by net notional amount) were subject to CSAs linked to AIG's credit rating and 14.3 percent of the regulatory capital relief transactions were not subject to collateral posting provisions. In general, each regulatory capital relief transaction is subject to a stand-alone Master Agreement or similar agreement, under which the aggregate Exposure is calculated with reference to only a single transaction.

The underlying mechanism that determines the amount of collateral to be posted varies by counterparty, and there is no standard formula. The varied mechanisms resulted from individual negotiations with different counterparties. The following is a brief description of the primary mechanisms that are currently being employed to determine the amount of collateral posting for this portfolio.

Reference to Market Indices Under this mechanism, the amount of collateral to be posted is determined based on a formula that references certain tranches of a market index, such as either iTraxx or CDX. This mechanism is used for CDS transactions that reference either corporate loans, or residential mortgages. While the market index is not a direct proxy, it has the advantage of being readily obtainable.

Expected Loss Models Under this mechanism, the amount of collateral to be posted is determined based on the amount of expected credit losses, generally determined using a rating-agency model.

Negotiated Amount Under this mechanism, the amount of collateral to be posted is determined based on terms negotiated between AIGFP and the counterparty, which could be a fixed percentage of the notional amount or present value of premiums to be earned by AIGFP.

The following table presents the amount of collateral postings by underlying mechanism as described above with respect to the regulatory capital relief portfolio (prior to consideration of transactions other than the Capital Markets super senior credit default swaps subject to the same Master Agreements) as of the periods ended:

(in millions)	December 31, 2009	December 31, 2010	February 16, 2011
Reference to market indices	$ 60	$ 19	$ 10
Expected loss models	20	-	-
Negotiated amount	230	217	216
Total	$ 310	$ 236	$ 226

Arbitrage Portfolio Multi-Sector CDOs

In the CDS transactions with physical settlement provisions, in respect of multi-sector CDOs, the standard CSA provisions for the calculation of exposure have been modified, with the exposure amount determined pursuant to an agreed formula that is based on the difference between the net notional amount of such transaction and the market value of the relevant underlying CDO security, rather than the replacement value of the transaction. As of any date, the "market value" of the relevant CDO security is the price at which a marketplace participant would be willing to purchase such CDO security in a market transaction on such date, while the "replacement value of the transaction" is the cost on such date of entering into a credit default swap transaction with substantially the same terms on the same referenced obligation (e.g., the CDO security). In cases where a formula is utilized, a transaction-specific threshold is generally factored into the calculation of exposure, which reduces the amount of collateral required to be posted. These thresholds typically vary based on the credit ratings of AIG and/or the reference obligations, with greater posting obligations arising in the context of lower ratings. For the large majority of counterparties to these transactions, the Master Agreement and CSA cover non-CDS transactions (e.g., interest rate and cross currency swap transactions) as well as CDS transactions. As a result, the amount of collateral to be posted by AIGFP in relation to the CDS transactions will be added to or offset by the amount, if any, of the exposure AIG has to the counterparty on the non-CDS transactions.

Arbitrage Portfolio Corporate Debt/CLOs

All of the Capital Markets corporate arbitrage-CLO transactions are subject to CSAs. These transactions are treated the same as other transactions subject to the same Master Agreement and CSA, with the calculation of collateral in accordance with the standard CSA procedures outlined above.

The vast majority of corporate debt transactions are no longer subject to future collateral postings. In exchange for an upfront payment to an intermediary counterparty, AIGFP has eliminated all future obligations to post collateral on corporate debt transactions that mature after 2011.

Collateral Calls

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

From time to time, valuation methodologies used and estimates made by counterparties with respect to certain super senior credit default swaps or the underlying reference CDO securities, for purposes of determining the

amount of collateral required to be posted by AIGFP in connection with such instruments, have resulted in estimates that differ, at times significantly, from AIGFP's estimates. In almost all cases, AIGFP has been able to successfully resolve the differences or otherwise reach an accommodation with respect to collateral posting levels, including in certain cases by entering into compromise collateral arrangements. Due to the ongoing nature of collateral arrangements, AIGFP regularly is engaged in discussions with one or more counterparties in respect of these differences, including at the present time. Valuation estimates made by counterparties for collateral purposes are, like any other third-party valuation, considered in the determination of the fair value estimates of the Capital Markets super senior credit default swap portfolio.

The following table presents the amount of collateral postings with respect to the Capital Markets super senior credit default swap portfolio (prior to offsets for other transactions) as of the periods ended:

(in millions)	December 31, 2009	December 31, 2010	February 16, 2011
Regulatory capital	$ 310	$ 236	$ 226
Arbitrage multi-sector CDO	3,715	3,013	2,843
Arbitrage corporate	565	537	527
Total	$ 4,590	$ 3,786	$ 3,596

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

Models and Modeling

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

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

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

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Arbitrage Portfolio Multi-Sector CDOs

The underlying assumption of the valuation methodology for AIGFP's credit default swap portfolio wrapping multi-sector CDOs is that, to be willing to assume the obligations under a credit default swap, a market participant would require payment of the full difference between the cash price of the underlying tranches of the referenced securities portfolio and the net notional amount specified in the credit default swap.

AIGFP uses a modified version of the Binomial Expansion Technique (BET) model to value its credit default swap portfolio written on super senior tranches of CDOs of ABS, including the 2a-7 Puts. The BET model was developed in 1996 by a major rating agency to generate expected loss estimates for CDO tranches and derive a credit rating for those tranches, and has been widely used ever since.

AIG selected the BET model for the following reasons:

- it is known and utilized by other institutions;
- it has been studied extensively, documented and enhanced over many years;
- it is transparent and relatively simple to apply;
- the parameters required to run the BET model are generally observable; and
- it can easily be modified to use probabilities of default and expected losses derived from the underlying collateral securities market prices instead of using rating-based historical probabilities of default.

The BET model has certain limitations. A well known limitation of the BET model is that it can understate the expected losses for super senior tranches when default correlations are high. The model uses correlations implied from diversity scores which do not capture the tendency for correlations to increase as defaults increase. Recognizing this concern, AIG tested the sensitivity of the valuations to the diversity scores. The results of the testing demonstrated that the valuations are not very sensitive to the diversity scores because the expected losses generated from the prices of the collateral pool securities are currently high, breaching the attachment point in most transactions. Once the attachment point is breached by a sufficient amount, the diversity scores, and their implied correlations, are no longer a significant driver of the valuation of a super senior tranche.

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

The application of the modified BET model involves the following steps for each individual super senior tranche of a CDO in the portfolio:

1) Calculation of the cash flow pattern that matches the weighted average life for each underlying security of the CDO;

2) Calculation of an implied credit spread for each security from the price and cash flow pattern determined in step 1. This is an arithmetic process which converts prices to yields (similar to the conversion of Department of the Treasury security prices to yields), and then subtracts LIBOR-based interest rates to determine the credit spreads;

3)

Conversion of the credit spread into its implied probability of default. This also is an arithmetic process that determines the assumed level of default on the security that would equate the present value of the expected cash flows discounted at a risk-free rate with the present value of the contractual cash flows discounted using LIBOR-based interest rates plus the credit spreads;

4) Generation of expected losses for each underlying security using the probability of default and recovery rate;

5) Aggregation of the cash flows for all securities to create a cash flow profile of the entire collateral pool within the CDO;

6) Division of the collateral pool into a number of hypothetical independent identical securities based on the CDO's diversity score so that the cash flow effects of the portfolio can be mathematically aggregated properly. The purpose of dividing the collateral pool into hypothetical securities is a simplifying assumption used in all BET models as part of a statistical technique that aggregates large amounts of homogeneous data;

7) Simulation of the default behavior of the hypothetical securities using a Monte Carlo simulation and aggregation of the results to derive the effect of the expected losses on the cash flow pattern of the super senior tranche taking into account the cash flow diversion mechanism of the CDO;

8) Discounting of the expected cash flows determined in step 7 using LIBOR-based interest rates to estimate the value of the super senior tranche of the CDO; and

9) Adjustment of the model value for the super senior multi-sector CDO credit default swap for the effect of the risk of non-performance by AIG using the credit spreads of AIG available in the marketplace and considering the effects of collateral and master netting arrangements.

AIGFP employs a Monte Carlo simulation in step 7 above to assist in quantifying the effect on the valuation of the CDO of the unique aspects of the CDO's structure such as triggers that divert cash flows to the most senior part of the capital structure. The Monte Carlo simulation is used to determine whether an underlying security defaults in a given simulation scenario and, if it does, the security's implied random default time and expected loss. This information is used to project cash flow streams and to determine the expected losses of the portfolio.

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

The following table presents the net notional amount and fair value of derivative liability of the multi-sector super senior credit default swap portfolio using the Capital Markets fair value methodology:

At December 31,	**Net Notional Amount**		**Fair Value Derivative Liability**	
(in millions)	**2010**	**2009**	**2010**	**2009**
BET model	**$ 1,819**	$ 2,186	**$ 886**	$ 1,092
Third-party price	**1,665**	2,466	**1,225**	1,883
Average of BET model and third-party price	**594**	193	**338**	145
Third-party price (European RMBS)	**2,611**	3,081	**1,035**	1,298
Total	**$ 6,689**	$ 7,926	**$ 3,484**	$ 4,418

The fair value of derivative liability recorded on AIGFP's super senior multi-sector CDO credit default swap portfolio represents the cumulative change in fair value of the outstanding derivatives, which represents AIG's best estimate of the amount it would need to pay to a

willing, able and knowledgeable third-party to assume the obligations under AIGFP's super senior multi-sector credit default swap portfolio.

Arbitrage Portfolio Corporate Debt/CLOs

The valuation of credit default swaps written on portfolios of investment-grade corporate debt and CLOs is less complex than the valuation of super senior multi-sector CDO credit default swaps and the valuation inputs are more transparent and readily available.

During the third quarter of 2009, AIGFP enhanced its valuation methodology for credit default swaps written on portfolios of investment-grade corporate debt. This new methodology uses a mathematical model that produces results that are more closely aligned with prices received from third parties, rather than relying on market indices. This methodology is widely used by other market participants and uses the current market credit spreads of the names in the portfolios along with the base correlations implied by the current market prices of comparable tranches of the relevant market traded credit indices as inputs. As of December 31, 2010, one transaction, representing two percent of the total notional amount of the corporate arbitrage transactions, is valued using third-party quotes given its unique attributes.

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

No assurance can be given that the fair value of AIGFP's arbitrage credit default swap portfolio would not change materially if other market indices or pricing sources were used to estimate the fair value of the portfolio.

Regulatory Capital Portfolio

In the case of credit default swaps written to facilitate regulatory capital relief, AIGFP estimates the fair value of these derivatives by considering observable market transactions. The transactions with the most observability are the early terminations of these transactions by counterparties. AIGFP continues to reassess the expected maturity of this portfolio. As of December 31, 2010, AIGFP estimated that the weighted average expected maturity of the portfolio was 3.16 years. AIGFP has not been required to make any payments as part of terminations initiated by counterparties.

AIGFP does not expect to make any payment under these contracts based on current portfolio conditions and stress analyses performed. Over the contractual life of the transactions, AIGFP is owed contractual premiums over an extended period. However, the expectation that the counterparties will be willing and able to terminate these transactions in the very near term based on the contract provisions and market conditions significantly reduces the expected future cash flows to be received. Consequently, the future expected cash flows validate the observable market transactions used to price the portfolio.

In light of early termination experience to date and after other analyses, AIG determined that there was no unrealized market valuation adjustment for this regulatory capital relief portfolio for the year ended December 31, 2010 other than (1) for transactions where AIGFP believes the counterparty is no longer using the transaction to obtain regulatory capital relief and (2) for transactions where the counterparty has failed to terminate the transaction early as expected and no longer has any rights to terminate early in the future. During 2009, AIGFP effected the early termination of a CDS transaction written on a European RMBS security of $1.5 billion in net notional amount that was reported as part of Regulatory Capital Other at a level approximating its fair value at that time. Given its unique structure and concentrated exposure to high loan-to-value Spanish residential mortgages, this transaction had exposed AIGFP to a relatively higher level of liquidity and credit risk than any other regulatory capital CDS exposure, and AIG felt it prudent to terminate the transaction to avoid further deterioration.

AIG will continue to assess the valuation of this portfolio and monitor developments in the marketplace. Given the potential for further significant deterioration in the credit markets and the risk that AIGFP's expectations with respect to the termination of these transactions by its counterparties may not materialize, there can be no assurance that AIG will not recognize unrealized market valuation losses from this portfolio in future periods.

Moreover, a decline in the fair value of this portfolio could have a material adverse effect on AIG's consolidated results of operations for an individual reporting period or to AIG's consolidated financial condition.

Key Assumptions Used in the BET model Multi-Sector CDOs

The most significant assumption used in the BET model is the estimated price of the individual securities within the CDO collateral pools. The following table summarizes the gross transaction notional weighted average price by ABS category.

	Gross Transaction Notional Weighted Average Price at December 31,	
	2010	**2009**
ABS Category		
RMBS Prime	**69.49%**	64.35%
RMBS Alt-A	**43.17**	37.47
RMBS Subprime	**35.21**	29.32
CMBS	**52.64**	67.14
CDOs	**23.57**	19.01
Other	**71.66**	70.62
Total	**42.30%**	42.75%

Prices for the individual securities held by a CDO are obtained in most cases from the CDO collateral managers, to the extent available. For the years ended December 31, 2010 and 2009, CDO collateral managers provided market prices for 58.0 percent and 62.8 percent of the underlying securities, respectively. When a price for an individual security is not provided by a CDO collateral manager, AIGFP derives the price through a pricing matrix using prices from CDO collateral managers for similar securities. Matrix pricing is a mathematical technique used principally to value fixed maturity securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the relationship of the security to other benchmark-quoted securities. Substantially all of the CDO collateral managers who provided prices used dealer prices for all or part of the underlying securities, in some cases supplemented by third-party pricing services.

The BET model also uses diversity scores, weighted average lives, recovery rates and discount rates. The determination of some of these inputs requires the use of judgment and estimates, particularly in the absence of market-observable data. Diversity scores (which reflect default correlations between the underlying securities of a CDO) are obtained from CDO trustees or implied from default correlations. Weighted average lives of the underlying securities are obtained, when available, from external subscription services such as Bloomberg and Intex and, if not available, AIGFP utilizes an estimate reflecting known weighted average lives.

Collateral recovery rates are obtained from the multi-sector CDO recovery data of a major rating agency. AIGFP utilizes a LIBOR-based interest rate curve to derive its discount rates.

AIGFP employs similar control processes to validate these model inputs as those used to value AIG's investment portfolio as described in Fair Value Measurements of Certain Financial Assets and Liabilities Overview. The effects of the adjustments resulting from the validation process were de minimis for each period presented.

Valuation Sensitivity Arbitrage Portfolio

Multi-Sector CDOs

AIG utilizes sensitivity analyses that estimate the effects of using alternative pricing and other key inputs on AIG's calculation of the unrealized market valuation loss related to the Capital Markets super senior credit default swap portfolio. While AIG believes that the ranges used in these analyses are reasonable, given the current difficult market conditions, AIG is unable to predict which of the scenarios is most likely to occur. As recent

experience demonstrates, actual results in any period are likely to vary, perhaps materially, from the modeled scenarios, and there can be no assurance that the unrealized market valuation loss related to the Capital Markets super senior credit default swap portfolio will be consistent with any of the sensitivity analyses. On average, prices for CDOs increased during 2010. Further, it is difficult to extrapolate future experience based on current market conditions.

For the purposes of estimating sensitivities for the super senior multi-sector CDO credit default swap portfolio, the change in valuation derived using the BET model is used to estimate the change in the fair value of the derivative liability. Out of the total $6.7 billion net notional amount of CDS written on multi-sector CDOs outstanding at December 31, 2010, a BET value is available for $4.1 billion net notional amount. No BET value is determined for $2.6 billion of CDS written on European multi-sector CDOs as prices on the underlying securities held by the CDOs are not provided by collateral managers; instead these CDS are valued using counterparty prices. Therefore, sensitivities disclosed below apply only to the net notional amount of $4.1 billion.

The most significant assumption used in the BET model is the estimated price of the securities within the CDO collateral pools. If the actual price of the securities within the collateral pools differs from the price used in estimating the fair value of the super senior credit default swap portfolio, there is potential for material variation in the fair value estimate. Any further declines in the value of the underlying collateral securities held by a CDO will similarly affect the value of the super senior CDO securities. While the models attempt to predict changes in the prices of underlying collateral securities held within a CDO, the changes are subject to actual market conditions which have proved to be highly volatile, especially given current market conditions. AIG cannot predict reasonably likely changes in the prices of the underlying collateral securities held within a CDO at this time.

The following table presents key inputs used in the BET model, and the potential increase (decrease) to the fair value of the derivative liability by ABS category at December 31, 2010 corresponding to changes in these key inputs:

(dollars in millions)	**Average Inputs Used at December 31, 2010**	**Change**	**Increase (Decrease) to Fair Value of Derivative Liability**						
			Entire Portfolio	**RMBS Prime**	**RMBS Alt-A**	**RMBS Subprime**	**CMBS**	**CDOs**	**Other**
Bond prices	42 points	Increase of 5 points	$ (278)	$ (7)	$ (25)	$ (116)	$ (87)	$ (30)	$ (13)
		Decrease of 5 points	263	8	24	108	85	19	19
Weighted average life	6.21 years	Increase of 1 year	26	-	2	19	4	1	-
		Decrease of 1 year	(54)	(1)	(2)	(42)	(5)	(3)	(1)
Recovery rates	19%	Increase of 10%	(41)	-	(3)	(16)	(19)	(1)	(2)
		Decrease of 10%	27	-	4	13	9	1	-
Diversity score[(a)]	12	Increase of 5	(10)						
		Decrease of 5	37						
Discount curve[(b)]	N/A	Increase of 100bps	20						

(a) *The diversity score is an input at the CDO level. A calculation of sensitivity to this input by type of security is not possible.*

(b)

The discount curve is an input at the CDO level. A calculation of sensitivity to this input by type of security is not possible. Furthermore, for this input it is not possible to disclose a weighted average input as a discount curve consists of a series of data points.

These results are calculated by stressing a particular assumption independently of changes in any other assumption. No assurance can be given that the actual levels of the key inputs will not exceed, perhaps significantly, the ranges assumed by AIG for purposes of the above analysis. No assumption should be made that results calculated from the use of other changes in these key inputs can be interpolated or extrapolated from the results set forth above.

Corporate Debt

The following table represents the relevant market credit inputs used to estimate the sensitivity for the credit default swap portfolio written on investment-grade corporate debt and the estimated increase (decrease) in fair value of derivative liability at December 31, 2010 corresponding to changes in these market credit inputs:

Input Used at December 31, 2010 *(in millions)*	**Increase (Decrease) in Fair Value of Derivative Liability**
Credit spreads for all names	
Effect of an increase by 10 basis points	$16
Effect of a decrease by 10 basis points	$(17)
All base correlations	
Effect of an increase by 1%	$5
Effect of a decrease by 1%	$(5)
Assumed recovery rate	
Effect of an increase by 1%	$(4)
Effect of a decrease by 1%	$4

These results are calculated by stressing a particular assumption independently of changes in any other assumption. No assurance can be given that the actual levels of the indices and maturity will not exceed, perhaps significantly, the ranges assumed by AIGFP for purposes of the above analysis. No assumption should be made that results calculated from the use of other changes in these indices and maturity can be interpolated or extrapolated from the results set forth above.

Other derivatives. Valuation models that incorporate unobservable inputs initially are calibrated to the transaction price. Subsequent valuations are based on observable inputs to the valuation model (e.g., interest rates, credit spreads, volatilities, etc.). Model inputs are changed only when corroborated by observable market data.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The information required by this item is set forth in the Risk Management section of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data

American International Group, Inc. and Subsidiaries Index to Financial Statements and Schedules

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of American International Group, Inc.:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of American International Group, Inc. and its subsidiaries (AIG) at December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the accompanying index present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, AIG maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). AIG's management is responsible for these financial statements and financial statement schedules, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A in the 2010 Form 10-K. Our responsibility is to express opinions on these financial statements, on the financial statement schedules, and on AIG's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As described in Note 2 to the consolidated financial statements, AIG changed the manner in which it accounts for other-than-temporary impairments of fixed maturity securities as of April 1, 2009, as well as the classification of non-controlling interests in partially owned consolidated subsidiaries as of January 1, 2009. Also, as of January 1, 2008, AIG adopted a new framework for measuring fair value and elected an option to report selected financial assets and liabilities at fair value.

As described in Note 1 to the consolidated financial statements, AIG completed a series of integrated transactions to recapitalize AIG with the Department of Treasury, the Federal Reserve Bank of New York and the AIG Credit Facility Trust on January 14, 2011.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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As described in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A in the 2010 Form 10-K, management has excluded Fuji Fire & Marine Insurance Company, from its assessment of internal control over financial reporting as of December 31, 2010 because AIG acquired a controlling interest in Fuji Fire & Marine Insurance Company in 2010. We have also excluded Fuji Fire & Marine Insurance Company from our audit of internal control over financial reporting. The total asset and total revenues of Fuji Fire & Marine Insurance Company constitute approximately 2 percent and less than 2 percent, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2010.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ *PricewaterhouseCoopers LLP*

New York, New York
February 24, 2011

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American International Group, Inc., and Subsidiaries

Consolidated Balance Sheet

(in millions)		December 31, 2010		December 31, 2009
Assets:				
Investments:				
Fixed maturity securities:				
Bonds available for sale, at fair value (amortized cost: 2010 $220,669; 2009 $364,491)	**$**	**228,302**	$	365,551
Bond trading securities, at fair value		**26,182**		31,243
Equity securities:				
Common and preferred stock available for sale, at fair value (cost: 2010 $2,571; 2009 $6,464)		**4,581**		9,522
Common and preferred stock trading, at fair value		**6,652**		8,318
Mortgage and other loans receivable, net of allowance (portion measured at fair value: 2010 $143; 2009 $119)		**19,367**		27,461
Finance receivables, net of allowance		**870**		20,327
Flight equipment primarily under operating leases, net of accumulated depreciation		**38,510**		44,091
Other invested assets (portion measured at fair value: 2010 $21,356; 2009 $18,888)		**42,210**		45,235
Securities purchased under agreements to resell, at fair value		**1,553**		2,154
Short-term investments (portion measured at fair value: 2010 $22,307; 2009 $23,975)		**42,185**		47,263
Total investments		**410,412**		601,165
Cash		**1,558**		4,400
Accrued investment income		**2,960**		5,152
Premiums and other receivables, net of allowance		**15,713**		16,549
Reinsurance assets, net of allowance		**25,810**		22,425
Current and deferred income taxes		**-**		4,108
Deferred policy acquisition costs		**14,668**		40,814
Real estate and other fixed assets, net of accumulated depreciation		**2,845**		4,142
Unrealized gain on swaps, options and forward transactions, at fair value		**5,917**		9,130
Goodwill		**1,333**		6,195
Other assets, including restricted cash of $30,232 in 2010 and $2,907 in 2009 and prepaid commitment asset of $3,628 in 2010 and $7,099 in 2009 (portion measured at fair value: 2010 $14; 2009 $288)		**40,342**		18,976
Separate account assets, at fair value		**54,432**		58,150
Assets held for sale		**107,453**		56,379
Total assets	**$**	**683,443**	$	847,585

See Accompanying Notes to Consolidated Financial Statements.

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American International Group, Inc., and Subsidiaries

Consolidated Balance Sheet *(Continued)*

(in millions, except share data)	December 31, 2010	December 31, 2009
Liabilities:		
Liability for unpaid claims and claims adjustment expense	**$ 91,151**	$ 85,386
Unearned premiums	**23,803**	21,363
Future policy benefits for life and accident and health insurance contracts	**31,268**	116,001
Policyholder contract deposits (portion measured at fair value: 2010 $445; 2009 $5,214)	**121,373**	220,128
Other policyholder funds	**6,758**	13,252
Commissions, expenses and taxes payable	**2,820**	4,950
Insurance balances payable	**2,829**	4,393
Funds held by companies under reinsurance treaties	**610**	774
Current and deferred income taxes	**2,369**	-
Securities sold under agreements to repurchase (portion measured at fair value: 2010 $2,119; 2009 $3,221)	**2,119**	3,505
Securities and spot commodities sold but not yet purchased, at fair value	**485**	1,030
Unrealized loss on swaps, options and forward transactions, at fair value	**5,735**	5,403
Trust deposits and deposits due to banks and other depositors (portion measured at fair value: 2010 $15; 2009 $15)	**892**	1,641
Other liabilities	**19,353**	22,503
Federal Reserve Bank of New York Commercial Paper Funding Facility (portion measured at fair value: 2009 $2,742)	**-**	4,739
Federal Reserve Bank of New York credit facility (see Notes 1 and 26)	**20,985**	23,435
Other long-term debt (portion measured at fair value: 2010 $12,143; 2009 $13,195)	**85,476**	113,298
Separate account liabilities	**54,432**	58,150
Liabilities held for sale	**97,312**	48,599
Total liabilities	**569,770**	748,550
Commitments, contingencies and guarantees (see Note 16)		
Redeemable noncontrolling interests in partially owned consolidated subsidiaries (including $12 and $211 associated with businesses held for sale in 2010 and 2009, respectively)	**434**	959
AIG shareholders' equity (see Notes 1 and 26):		
Preferred stock		
Series E; $5.00 par value; shares issued: 2010 and 2009 400,000, at aggregate liquidation value	**41,605**	41,605
Series F; $5.00 par value; shares issued: 2010 and 2009 300,000, aggregate liquidation value: 2010 7,543; 2009 5,344	**7,378**	5,179
Series C; $5.00 par value; shares issued: 2010 and 2009 100,000, aggregate liquidation value: 2010 and 2009 $0.5	**23,000**	23,000
Common stock, $2.50 par value; 5,000,000,000 shares authorized; shares issued: 2010 147,124,067; 2009 141,732,263	**368**	354
Treasury stock, at cost; 2010 6,660,908; 2009 6,661,356 shares of common stock	**(873)**	(874)
Additional paid-in capital	**9,683**	6,358
Accumulated deficit	**(3,466)**	(11,491)
Accumulated other comprehensive income	**7,624**	5,693
Total AIG shareholders' equity	**85,319**	69,824
Noncontrolling interests (see Notes 1 and 26):		
Noncontrolling nonvoting, callable, junior and senior preferred interests held by Federal Reserve Bank of New York	**26,358**	24,540

Other (including $204 and $2,234 associated with businesses held for sale in 2010 and 2009, respectively)		**1,562**		3,712
Total noncontrolling interests		**27,920**		28,252
Total equity		**113,239**		98,076
Total liabilities and equity	**$**	**683,443**	$	847,585

See Accompanying Notes to Consolidated Financial Statements.

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American International Group, Inc., and Subsidiaries

Consolidated Statement of Income (Loss)

(dollars in millions, except per share data)	Years Ended December 31, 2010	2009	2008
Revenues:			
Premiums and other considerations	**$ 48,029**	$ 51,239	$ 63,137
Net investment income	**20,930**	18,987	10,453
Net realized capital losses:			
Total other-than-temporary impairments on available for sale securities	**(1,712)**	(6,096)	(41,409)
Portion of other-than-temporary impairments on available for sale fixed maturity securities recognized in Accumulated other comprehensive income	**(812)**	316	-
Net other-than-temporary impairments on available for sale securities recognized in net income (loss)	**(2,524)**	(5,780)	(41,409)
Other realized capital gains (losses)	**2,245**	570	(5,385)
Total net realized capital losses	**(279)**	(5,210)	(46,794)
Unrealized market valuation gains (losses) on Capital Markets super senior credit default swap portfolio	**598**	1,418	(28,602)
Other income	**8,023**	8,918	(5,034)
Total revenues	**77,301**	75,352	(6,840)
Benefits, claims and expenses:			
Policyholder benefits and claims incurred	**45,874**	50,015	51,036
Policy acquisition and other insurance expenses	**15,820**	15,864	20,833
Interest expense	**7,859**	14,238	15,713
Restructuring expenses and related asset impairment and other expenses	**574**	1,149	771
Net (gain) loss on sale of properties and divested businesses	**(17,767)**	1,271	-
Other expenses	**7,005**	7,122	7,836
Total benefits, claims and expenses	**59,365**	89,659	96,189
Income (loss) from continuing operations before income tax expense (benefit)	**17,936**	(14,307)	(103,029)
Income tax expense (benefit):			
Current	**644**	2,802	1,049
Deferred	**5,215**	(4,291)	(10,732)

Total income tax expense (benefit)		**5,859**		(1,489)	(9,683)
Income (loss) from continuing operations		**12,077**		(12,818)	(93,346)
Income (loss) from discontinued operations, net of income tax expense (benefit) (See Note 4)		**(2,064)**		505	(7,041)
Net income (loss)		**10,013**		(12,313)	(100,387)
Less:					
Net income (loss) from continuing operations attributable to noncontrolling interests:					
Noncontrolling nonvoting, callable, junior and senior preferred interests held by Federal Reserve Bank of New York		**1,818**		140	-
Other		**355**		(1,576)	(984)
Total net income (loss) from continuing operations attributable to noncontrolling interests		**2,173**		(1,436)	(984)
Net income (loss) from discontinued operations attributable to noncontrolling interests		**54**		72	(114)
Total net income (loss) attributable to noncontrolling interests		**2,227**		(1,364)	(1,098)
Net income (loss) attributable to AIG	**$**	**7,786**	$	(10,949)	$ (99,289)
Net income (loss) attributable to AIG common shareholders	**$**	**1,583**	$	(12,244)	$ (99,689)
Income (loss) per common share attributable to AIG:					
Basic:					
Income (loss) from continuing operations	**$**	**14.75**	$	(93.69)	$ (704.26)
Income (loss) from discontinued operations	**$**	**(3.15)**	$	3.21	$ (52.59)
Diluted:					
Income (loss) from continuing operations	**$**	**14.75**	$	(93.69)	$ (704.26)
Income (loss) from discontinued operations	**$**	**(3.15)**	$	3.21	$ (52.59)
Weighted average shares outstanding:					
Basic		**136,585,844**		135,324,896	131,714,245
Diluted		**136,649,280**		135,324,896	131,714,245

See Accompanying Notes to Consolidated Financial Statements.

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American International Group, Inc., and Subsidiaries

Consolidated Statement of Comprehensive Income (Loss)

	Years Ended December 31,		
(in millions)	**2010**	**2009**	**2008**
Net income (loss)	**$ 10,013**	$ (12,313)	$ (100,387)
Other comprehensive income (loss):			
Cumulative effect of change in accounting principle	**-**	-	(162)
Income tax benefit (expense) on above change in accounting principle	**-**	-	57
Unrealized appreciation (depreciation) of fixed maturity investments on which other-than-temporary credit impairments were taken	**2,522**	2,048	-
Income tax benefit (expense) on above changes	**(1,293)**	(724)	-
Unrealized appreciation (depreciation) of all other investments net of reclassification adjustments	**3,640**	27,891	(13,966)
Income tax benefit (expense) on above changes	**(1,529)**	(9,802)	4,948
Foreign currency translation adjustments	**(1,873)**	2,932	(1,398)
Income tax benefit (expense) on above changes	**621**	(1,005)	356
Net derivative gains (losses) arising from cash flow hedging activities net of reclassification adjustments	**111**	95	(156)
Income tax benefit (expense) on above changes	**(17)**	(32)	52
Change in retirement plan liabilities adjustment	**299**	370	(1,325)
Income tax benefit (expense) on above changes	**(24)**	(16)	352
Other comprehensive income (loss)	**2,457**	21,757	(11,242)
Comprehensive income (loss)	**12,470**	9,444	(111,629)
Comprehensive income (loss) attributable to noncontrolling interests	**590**	(1,116)	(1,369)
Comprehensive income (loss) attributable to noncontrolling nonvoting, callable, junior and senior preferred interests held by Federal Reserve Bank of New York	**1,818**	140	-
Comprehensive income (loss) attributable to AIG	**$ 10,062**	$ 10,420	$ (110,260)

See Accompanying Notes to Consolidated Financial Statements.

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American International Group, Inc., and Subsidiaries

Consolidated Statement of Equity

(in millions)	Preferred Stock	Common Stock	Treasury Stock	Additional Paid-in Capital	Payments Advanced to Purchase Shares	Retained Earnings/ (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total AIG Share-holders' Equity	Non-controlling Interests	Total Equity
Balance, January 1, 2008	$ -	$ 344	$ (6,685)	$ 9,382	$ (912)	$ 89,029	$ 4,643	$ 95,801	$ 8,472	$ 104,273
Consideration received for Series C preferred stock not yet issued	-	-	-	23,000	-	-	-	23,000	-	23,000
Series D issuance	40,000	-	-	-	-	-	-	40,000	-	40,000
Common stock issued	-	24	-	7,319	-	-	-	7,343	-	7,343
Common stock issued under stock plans	-	-	146	(120)	-	-	-	26	-	26
Shares purchased	-	-	(1,912)	-	1,912	-	-	-	-	-
Present value of future contract adjustment payments related to issuance of equity units	-	-	-	(431)	-	-	-	(431)	-	(431)
Payments advanced	-	-	-	-	(1,000)	-	-	(1,000)	-	(1,000)
Cumulative effect of change in accounting principle, net of tax	-	-	-	-	-	(1,003)	-	(1,003)	-	(1,003)
Net loss attributable to AIG or other noncontrolling interests[(a)]	-	-	-	-	-	(99,289)	-	(99,289)	(574)	(99,863)
Dividends	-	-	-	-	-	(1,105)	-	(1,105)	-	(1,105)
Other comprehensive loss	-	-	-	-	-	-	(10,971)	(10,971)	(271)	(11,242)
Net decrease due to deconsolidation	-	-	-	-	-	-	-	-	(648)	(648)
Contributions from noncontrolling interests	-	-	-	-	-	-	-	-	1,651	1,651
Distributions to noncontrolling interests	-	-	-	-	-	-	-	-	(738)	(738)
Other	-	-	1	338	-	-	-	339	203	542

Balance, December 31, 2008	**$ 40,000**	**$ 368**	**$ (8,450)**	**$ 39,488**	**$ -**	**$ (12,368)**	**$ (6,328)**	**$ 52,710**	**$ 8,095**	**$ 60,805**
Series C issuance	23,000	-	-	(23,000)	-	-	-	-	-	-
Series D exchange for Series E	1,605	-	-	(1,605)	-	-	-	-	-	-
Series F drawdowns	5,344	-	-	-	-	-	-	5,344	-	5,344
Series F commitment fee	(165)	-	-	-	-	-	-	(165)	-	(165)
Common stock issued under stock plans	-	1	176	(177)	-	-	-	-	-	-
Retirement of treasury stock	-	(15)	7,400	(7,385)	-	-	-	-	-	-
Cumulative effect of change in accounting principle, net of tax	-	-	-	-	-	11,826	(9,348)	2,478	-	2,478
Net loss attributable to AIG or other noncontrolling interests[(a)]	-	-	-	-	-	(10,949)	-	(10,949)	(1,784)	(12,733)
Other comprehensive income	-	-	-	-	-	-	21,369	21,369	388	21,757
Net decrease due to deconsolidation	-	-	-	(97)	-	-	-	(97)	(3,405)	(3,502)
Contributions from noncontrolling interests	-	-	-	-	-	-	-	-	677	677
Distributions to noncontrolling interests	-	-	-	-	-	-	-	-	(368)	(368)
Issuance of noncontrolling, nonvoting, callable, junior and senior preferred interests to the Federal Reserve Bank of New York	-	-	-	-	-	-	-	-	24,400	24,400
Net income (loss) attributable to noncontrolling nonvoting, callable, junior and senior preferred interests held by the Federal Reserve Bank of New York	-	-	-	-	-	-	-	-	140	140
Deferred taxes	-	-	-	(818)	-	-	-	(818)	-	(818)
Other	-	-	-	(48)	-	-	-	(48)	109	61
Balance, December 31, 2009	**$ 69,784**	**$ 354**	**$ (874)**	**$ 6,358**	**$ -**	**$ (11,491)**	**$ 5,693**	**$ 69,824**	**$ 28,252**	**$ 98,076**

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American International Group, Inc., and Subsidiaries

Consolidated Statement of Equity *(Continued)*

(in millions)	*Preferred Stock*	*Common Stock*	*Treasury Stock*	*Additional Paid-in Capital*	*Payments Advanced to Purchase Shares*	*Retained Earnings/ (Accumulated Deficit)*	*Accumulated Other Comprehensive Income (Loss)*	*Total AIG Share-holders' Equity*	*Non-controlling Interests*	*Total Equity*
Series F drawdowns	**2,199**	**-**	**-**	**-**	**-**	**-**	**-**	**2,199**	**-**	**2,199**
Common stock issued under stock plans	**-**	**2**	**-**	**(20)**	**-**	**-**	**-**	**(18)**	**-**	**(18)**
Equity unit exchange	**-**	**12**	**-**	**3,645**	**-**	**-**	**-**	**3,657**	**-**	**3,657**
Cumulative effect of change in accounting principle, net of tax	**-**	**-**	**-**	**-**	**-**	**239**	**(345)**	**(106)**	**-**	**(106)**
Net income attributable to AIG or other noncontrolling interests[(a)]	**-**	**-**	**-**	**-**	**-**	**7,786**	**-**	**7,786**	**336**	**8,122**
Net income attributable to noncontrolling nonvoting, callable, junior and senior preferred interests held by the Federal Reserve Bank of New York	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,818**	**1,818**
Other comprehensive income[(b)]	**-**	**-**	**-**	**-**	**-**	**-**	**2,276**			