

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
(State or other jurisdiction of
incorporation or organization)

13-2592361
(I.R.S. Employer
Identification No.)

180 Maiden Lane, New York, New York
(Address of principal executive offices)

10038
(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 No

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 No

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 No

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 No

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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.

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

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

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
Portions of the registrant's definitive proxy statement
for the 2011 Annual Meeting of Shareholders

Form 10-K Reference Locations
Part III, Items 10, 11, 12, 13 and 14

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American International Group, Inc., and Subsidiaries

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)

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Institutional Asset Management:

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

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)

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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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

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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.*

<i>(in millions)</i>	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										

<i>(in millions)</i>	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

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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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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				

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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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<i>(in millions)</i>	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:

<i>(in millions)</i>	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	

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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.

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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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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.

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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.

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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

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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.

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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

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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.

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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

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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

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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.

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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.

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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

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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

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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.

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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.

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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;

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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.

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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,

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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.

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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.

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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.

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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;

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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.

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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

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

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.

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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	Lincoln National Corporation
Aflac Incorporated	MetLife, Inc.
The Chubb Corporation	Prudential Financial, Inc.
Hartford Financial Services Group, 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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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:

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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.

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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.

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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.

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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:

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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

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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

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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

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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

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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.

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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:**

<i>(In millions)</i>	As of	
	December 31, 2010	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)

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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

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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

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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.

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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:

<i>(in millions)</i>	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

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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:

<i>(dollars in billions)</i>	December 31,		December 31,	Percentage Decrease	
	2010	2009	2008	2010 vs. 2009	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:

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<i>(in millions)</i>	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

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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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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 Repayments	Effect of and Foreign Exchange	Other Non-Cash Changes	Activity of discontinued operations ^(a)	Reclassified to Liabilities of businesses held for sale ^(b)	Dispositions ^(b)	Balance at December 31, 2010
Debt issued or guaranteed by AIG:									
General borrowings:									
FRBNY Credit Facility ^(e)	\$ 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)	-	-	-	-
GLAs, 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)	-

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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

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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

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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)			Available		One-Year	
Facility	Size	Borrower(s)	Amount	Expiration	Term-Out	Effective
					Option	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

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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

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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) <i>Stable</i> <i>Outlook</i>	A-2 (2nd of 8)	Baa 1 (4th of 9) <i>Stable</i> <i>Outlook</i>	A- (3rd of 8) <i>Negative</i> <i>Outlook</i>	BBB (4th of 9) <i>Stable</i> <i>Outlook</i>
AIG Financial Products Corp. ^(d)	P-2 <i>Stable</i> <i>Outlook</i>	A-2	Baa 1 <i>Stable</i> <i>Outlook</i>	A- <i>Negative</i> <i>Outlook</i>	-
AIG Funding, Inc. ^(d)	P-2 <i>Stable</i> <i>Outlook</i>	A-2	-	-	-
ILFC	Not prime <i>Stable</i> <i>Outlook</i>	-	B1 (6th of 9) <i>Stable</i> <i>Outlook</i>	BBB-(4th of 8) <i>Negative</i> <i>Outlook</i>	BB (5th of 9) <i>Evolving</i> <i>Outlook</i>

(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.

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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.

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

At December 31, 2010 (in millions)	Total Payments	Payments due by Period			
		2011	2012 - 2013	2014 - 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.

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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.

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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 (in millions)	Total Amounts Committed	Amount of Commitment Expiration			
		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

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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

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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.

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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.

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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)	-	-

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

<i>(in millions)</i>	Years Ended December 31,			Percentage Increase/(Decrease)	
	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

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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)

<i>(in millions)</i>	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

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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

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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)

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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.

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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 - Chartist Operations - Chartist 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,

<i>(in millions)</i>	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

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

Years Ended December 31, (in millions)	2010	2009	2008	Percentage Increase/ (Decrease)	
				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,

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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)	Percentage Increase/ (Decrease)				
	2010	2009	2008	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)	Percentage Increase/ (Decrease)				
	2010	2009	2008	2010 vs. 2009	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)

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

Computed using a constant exchange rate for each period.

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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)

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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

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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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Chartis U.S. Results

The following table presents Chartis U.S. results:

Years Ended December 31, (in millions)	Percentage Increase/ (Decrease)				
	2010	2009	2008	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)	Percentage Increase/ (Decrease)				
	2010	2009	2008	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

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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.

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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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Chartis International Results

The following table presents Chartis International results:

Years Ended December 31, (in millions)	Percentage Increase/ (Decrease)				
	2010	2009	2008	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)	Percentage Increase/ (Decrease)				
	2010	2009	2008	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)

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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.

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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

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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.

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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.

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

Years Ended December 31, <i>(in millions)</i>	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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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

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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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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
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Years Ended December 31,*(in millions)*

Calendar Year

2010 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
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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

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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

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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

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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

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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.

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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

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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

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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.

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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.

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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

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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.

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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.

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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

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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

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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

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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

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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, (in millions)	2010		2009		2008	
	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)

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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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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, (in millions)	2010		2009		2008	
	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 December 31,	2010			2009			2008		
	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:

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Years Ended December 31,	2010		2009		2008	
	Gross	Net	Gross	Net	Gross	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

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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	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.

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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	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)

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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

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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)

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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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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			2009		
	Group Retirement Products*	Individual Fixed Annuities	Individual Variable Annuities	Group Retirement Products*	Individual Fixed Annuities	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, (in millions)	2010	2009	2008	Percentage Increase/(Decrease)	
				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:

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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

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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.

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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

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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, (in millions)	Percentage Increase/(Decrease)				
	2010	2009	2008	2010 vs. 2009	2009 vs. 2008
Parent & Other:					