AMERICAN INTERNATIONAL GROUP INC
Form 10-K
March 02, 2009

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

Form 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2008

or

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

Commission file number 1-8787

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

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

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

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, Par Value $2.50 Per Share	New York Stock Exchange
5.75% Series A-2 Junior Subordinated Debentures	New York Stock Exchange
4.875% Series A-3 Junior Subordinated Debentures	New York Stock Exchange
6.45% Series A-4 Junior Subordinated Debentures	New York Stock Exchange
7.70% Series A-5 Junior Subordinated Debentures	New York Stock Exchange

Corporate Units (composed of stock purchase contracts and junior subordinated debentures)	New York Stock Exchange
NIKKEI 225® Index Market Index Target-Term Securities® due January 5, 2011	NYSE Arca

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

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

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

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

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

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

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

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

The aggregate market value of the voting and nonvoting common equity held by nonaffiliates of the registrant computed by reference to the price at which the common equity was last sold of $26.46 as of June 30, 2008 (the last business day of the registrant s most recently completed second fiscal quarter), was approximately $61,753,000,000.

As of January 30, 2009, there were outstanding 2,690,747,320 shares of Common Stock, $2.50 par value per share, of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

Document of the Registrant	Form 10-K Reference Locations
Portions of the registrant s definitive proxy statement for the 2009 Annual Meeting of Shareholders	Part III, Items 10, 11, 12, 13 and 14

American International Group, Inc., and Subsidiaries

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American International Group, Inc., and Subsidiaries

Part I

Item 1. *Business*

American International Group, Inc. (AIG), a Delaware corporation, is a holding company which, through its subsidiaries, is engaged in a broad range of insurance and insurance-related activities in the United States and abroad. AIG s primary activities include both General Insurance and Life Insurance & Retirement Services operations. Other significant activities include Financial Services and Asset Management.

Liquidity Events and Transactions with the NY Fed and the United States Department of the Treasury

Liquidity Entering the Third Quarter of 2008

AIG parent entered the third quarter of 2008 with $17.6 billion of cash and cash equivalents, including the remaining proceeds from the issuance of $20 billion of common stock, equity units, and junior subordinated debt securities in May 2008. In addition, AIG s securities lending collateral pool held $10.4 billion of cash and other short-term investments. On August 18, 2008, AIG raised $3.25 billion through the issuance of 8.25% Notes Due 2018.

Strategic Review and Proposed Liquidity Measures

From mid-July and throughout August 2008, AIG s then Chief Executive Officer, Robert Willumstad, was engaged in a strategic review of AIG s businesses.

During this time period, AIG was engaged in a review of measures to address the liquidity concerns in AIG s securities lending portfolio and to address the ongoing collateral calls with respect to the AIG Financial Products Corp. and AIG Trading Group Inc. and their respective subsidiaries (collectively, AIGFP) super senior multi-sector credit default swap portfolio, which at July 31, 2008 totaled $16.1 billion. To facilitate this process, AIG asked a number of investment banking firms to discuss possible solutions to these issues. In late August, AIG engaged J.P. Morgan Securities, Inc. (J.P. Morgan) to assist in developing alternatives, including a potential additional capital raise.

Continuing Liquidity Pressures

Historically, under AIG s securities lending program, cash collateral was received from borrowers and invested by AIG primarily in fixed maturity securities to earn a spread. AIG had received cash collateral from borrowers of 100 to 102 percent of the value of the loaned securities. In light of more favorable terms offered by other lenders of securities, AIG accepted cash advanced by borrowers of less than the 102 percent historically required by insurance regulators. Under an agreement with its insurance company subsidiaries participating in the securities lending program, AIG parent deposited collateral in an amount sufficient to address the deficit. AIG parent also deposited amounts into the collateral pool to offset losses realized by the pool in connection with sales of impaired securities. Aggregate deposits by AIG parent to or for the benefit of the securities lending collateral pool through August 31, 2008 totaled $3.3 billion.

In addition, from July 1, 2008 to August 31, 2008, the continuing decline in value of the super senior collateralized debt obligation (CDO) securities protected by AIGFP s super senior credit default swap portfolio, together with ratings downgrades of such CDO securities, resulted in AIGFP posting additional collateral in an aggregate net amount of

$5.9 billion.

By the beginning of September 2008, these collateral postings and securities lending requirements were placing increasing stress on AIG parent s liquidity.

Rating Agencies

In early September 2008, AIG met with the representatives of the principal rating agencies to discuss Mr. Willumstad s strategic review as well as the liquidity issues arising from AIG s securities lending program and AIGFP s super senior multi-sector CDO credit default swap portfolio. On Friday, September 12, 2008, Standard & Poor s, a division of The McGraw-Hill Companies, Inc. (S&P), placed AIG on CreditWatch with negative implications and noted that upon completion of its review, the agency could affirm AIG parent s current rating of AA- or lower the rating by one to three notches. AIG understood that both S&P and Moody s Investors Service (Moody s) would re-evaluate AIG s ratings early in the week of September 15, 2008. Also on Friday, September 12, 2008, AIG s subsidiaries, International Lease Finance Corporation (ILFC) and American General Finance, Inc. (AGF), were unable to replace all of their maturing commercial paper with new issuances of commercial paper. As a result, AIG advanced loans to these subsidiaries to meet their commercial paper obligations.

The Accelerated Capital Raise Attempt

As a result of S&P s action, AIG accelerated the process of attempting to raise additional capital and over the weekend of September 13 and 14, 2008 discussed potential capital injections and other liquidity measures with private equity firms, sovereign wealth funds and other potential investors. AIG kept the United States Department of the Treasury and the NY Fed informed of these efforts. AIG also engaged Blackstone Advisory Services LP to assist in developing alternatives, including a potential additional capital raise. Despite offering a number of different structures through this process, AIG did not receive a proposal it could act upon in a timely fashion. AIG s difficulty in this regard resulted in part from the dramatic decline in its common stock price from $22.76 on September 8, 2008 to $12.14 on September 12, 2008. This decrease in stock price made it unlikely that AIG would be able to raise the large amounts of capital that would be necessary if AIG s long-term debt ratings were downgraded.

AIG Attempts to Enter into a Syndicated Secured Lending Facility

On Monday, September 15, 2008, AIG was again unable to access the commercial paper market for its primary commercial paper programs, AIG Funding, ILFC and AGF. Payments under the programs totaled $2.2 billion for the day, and AIG advanced loans to ILFC and AGF to meet their funding obligations. In addition, AIG experienced returns under its securities lending programs which led to cash payments of $5.2 billion to securities lending counterparts on that day.

On Monday morning, September 15, 2008, AIG met with representatives of Goldman, Sachs & Co., J.P. Morgan and the NY Fed to discuss the creation of a $75 billion secured lending facility to be syndicated among a number of large financial institutions. The facility was intended to act as a bridge loan to meet AIG parent s liquidity needs until AIG could sell sufficient assets to stabilize and enhance its liquidity position. Goldman, Sachs & Co. and J.P. Morgan immediately commenced syndication efforts.

The Rating Agencies Downgrade AIG s Long-Term Debt Rating

In the late afternoon of September 15, 2008, S&P downgraded AIG s long-term debt rating by three notches, Moody s downgraded AIG s long-term debt rating by two notches and Fitch Ratings (Fitch) downgraded AIG s long-term debt rating by two notches. As a consequence of the rating actions, AIGFP estimated that it would need in excess of $20 billion in order to fund additional collateral demands and transaction termination payments in a short period of time. Subsequently, in a period of approximately 15 days following the rating actions, AIGFP was required to fund approximately $32 billion, reflecting not only the effect of the rating actions but also changes in market values and other factors.

The Private Sector Solution Fails

By Tuesday morning, September 16, 2008, it had become apparent that Goldman, Sachs & Co. and J.P. Morgan were unable to syndicate a lending facility. Moreover, the downgrades, combined with a steep drop in AIG s common stock price to $4.76 on September 15, 2008, had resulted in counterparties withholding payments from AIG and refusing to transact with AIG even on a secured short-term basis. As a result, AIG was unable to borrow in the short-term lending markets. To provide liquidity, on Tuesday, September 16, 2008 both ILFC and AGF drew down on their existing revolving credit facilities, resulting in borrowings of approximately $6.5 billion and $4.6 billion, respectively.

Also, on September 16, 2008, AIG was notified by its insurance regulators that it would no longer be permitted to borrow funds from its insurance company subsidiaries under a revolving credit facility that AIG maintained with certain of its insurance subsidiaries acting as lenders. Subsequently, the insurance regulators required AIG to repay any outstanding loans under that facility and to terminate it. The intercompany facility was terminated effective September 22, 2008.

Fed Credit Agreement

By early Tuesday afternoon on September 16, 2008, it was clear that AIG had no viable private sector solution to its liquidity issues. At this point, AIG received the terms of a secured lending agreement that the NY Fed was prepared to provide. AIG estimated that it had an immediate need for cash in excess of its available liquid resources. That night, AIG s Board of Directors approved borrowing from the NY Fed based on a term sheet that set forth the terms of the secured credit agreement and related equity participation. Over the next six days, AIG elected Edward M. Liddy Director, Chairman and CEO, replacing Robert Willumstad in those positions, and negotiated a definitive credit agreement with the NY Fed and borrowed, on a secured basis, approximately $37 billion from the NY Fed before formally entering into the Credit Agreement, dated as of September 22, 2008 (as amended, the Fed Credit Agreement) between AIG and the NY Fed, which established the credit facility (Fed Facility).

On September 22, 2008, AIG entered into the Fed Credit Agreement in the form of a two-year secured loan and a Guarantee and Pledge Agreement (the Pledge Agreement) with the NY Fed. See Note 13 to the Consolidated Financial Statements for more information regarding the terms of and borrowings under the Fed Credit Agreement and subsequent amendments thereto.

AIG s Strategy for Stabilization and Repayment of the Fed Facility

In October 2008, AIG announced a restructuring of its operations, which contemplated retaining its U.S. property and casualty and foreign general insurance businesses and a continuing ownership interest in certain of its foreign life insurance operations while exploring disposition opportunities for its remaining businesses. Proceeds from sales of these assets are contractually required to be applied as mandatory prepayments pursuant to the terms of the Fed Credit Agreement. Also in October 2008, AIGFP began unwinding its businesses and portfolios. AIGFP is now entering into new derivative transactions only to maintain its current portfolio, reduce risk and hedge the currency and interest rate risks associated with its affiliated businesses. As part of its orderly wind-down, AIGFP is also opportunistically terminating contracts. Due to the long-term duration of AIGFP s derivative contracts and the complexity of AIGFP s portfolio, AIG expects that an orderly wind-down of AIGFP will take a substantial period of time.

On November 9, 2008, AIG, the NY Fed and the United States Department of the Treasury announced a set of transactions that were implemented during the fourth quarter of 2008 pursuant to which, among other actions, AIG issued $40 billion of fixed-rate cumulative perpetual serial preferred stock (Series D Preferred Stock) to the United States Department of the Treasury, terminated $62 billion of credit default swaps written by AIGFP and resolved and terminated its U.S. securities lending program.

On March 2, 2009, AIG, the NY Fed and the United States Department of the Treasury announced agreements in principle to modify the terms of the Fed Credit Agreement and the Series D Preferred Stock and to provide a $30 billion equity capital commitment facility. The parties also announced their intention to take a number of other actions intended to strengthen AIG s capital position, enhance its liquidity, reduce its borrowing costs and facilitate AIG s asset disposition program.

See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Note 23 to the Consolidated Financial Statements for a further discussion of this strategy.

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American International Group, Inc., and Subsidiaries

Principal Business Units

The principal business units in each of AIG s operating segments during 2008 are shown below. For information on AIG s business segments, see Note 3 to the Consolidated Financial Statements.

General Insurance

American Home Assurance Company (American Home)
National Union Fire Insurance Company of Pittsburgh, Pa. (National Union)
New Hampshire Insurance Company (New Hampshire)
Lexington Insurance Company (Lexington)
The Hartford Steam Boiler Inspection and Insurance Company (HSB)[1]
Transatlantic Reinsurance Company
United Guaranty Residential Insurance Company
American International Underwriters Overseas, Ltd. (AIUO)
AIU Insurance Company (AIUI)

Life Insurance & Retirement Services

Domestic:	Foreign:
American General Life Insurance Company (AIG American General)	American Life Insurance Company (ALICO)
American General Life and Accident Insurance Company (AGLA)	AIG Star Life Insurance Co., Ltd. (AIG Star Life)
The United States Life Insurance Company in the City of New York (USLIFE)	AIG Edison Life Insurance Company (AIG Edison Life)
The Variable Annuity Life Insurance Company (VALIC)	American International Assurance Company, Limited, together with American International Assurance Company (Bermuda) Limited (AIA)
AIG Annuity Insurance Company (AIG Annuity)	American International Reinsurance Company Limited (AIRCO)
AIG SunAmerica Life Assurance Company (AIG SunAmerica)	Nan Shan Life Insurance Company, Ltd. (Nan Shan)
	The Philippine American Life and General Insurance Company (Philamlife)

Financial Services

International Lease Finance Corporation (ILFC)
AIG Financial Products Corp. and AIG Trading Group Inc. and their respective subsidiaries
American General Finance, Inc. (AGF)
AIG Consumer Finance Group, Inc. (AIGCFG)
Imperial A.I. Credit Companies (A.I. Credit)

Asset Management

AIG SunAmerica Asset Management Corp. (SAAMCo)
AIG Global Asset Management Holdings Corp. and its subsidiaries and affiliated companies (collectively, AIG Investments)
AIG Private Bank Ltd. (AIG Private Bank)[2]
AIG Global Real Estate Investment Corp. (AIG Global Real Estate)

[1] On December 22, 2008, AIG entered into a contract to sell HSB Group, Inc., the parent company of HSB, to Munich Re Group for $742 million. Subject to satisfaction of certain closing conditions, including regulatory approvals, AIG expects the sale to close by the end of the first quarter of 2009.
[2] On December 1, 2008, AIG entered into a contract to sell AIG Private Bank to Aabar Investments PJSC for $328 million. Subject to satisfaction of certain closing conditions, including regulatory approvals, AIG expects the sale to close by the end of the first quarter of 2009.

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At December 31, 2008, AIG and its subsidiaries had approximately 116,000 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 Section 13(a), 14(a) or 15(d) of the Securities Exchange Act of 1934 (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.

Throughout this Annual Report on Form 10-K, AIG presents its operations in the way it believes will be most meaningful, as well as most transparent. Certain of the measurements used by AIG management are non-GAAP financial measures under SEC rules and regulations. Statutory underwriting profit (loss) is determined in accordance with accounting principles prescribed by insurance regulatory authorities. For an explanation of why AIG management considers this non-GAAP measure useful to investors, see Management s Discussion and Analysis of Financial Condition and Results of Operations.

General Insurance Operations

AIG s General Insurance subsidiaries are multiple line companies writing substantially all lines of property and casualty insurance and various personal lines both domestically and abroad and constitute the AIG Property Casualty Group (formerly known as Domestic General Insurance) and the Foreign General Insurance Group.

AIG Property Casualty Group is comprised of Commercial Insurance, Transatlantic, Personal Lines and Mortgage Guaranty businesses.

AIG is diversified both in terms of classes of business and geographic locations. In General Insurance, workers compensation business is the largest class of business written and represented approximately 11 percent of net premiums written for the year ended December 31, 2008. During 2008, 9 percent, 5 percent and 5 percent of the direct General Insurance premiums written (gross premiums less return premiums and cancellations, excluding reinsurance assumed and before deducting reinsurance ceded) were written in California, New York and Texas, respectively. No other state or foreign country accounted for more than five percent of such premiums.

The majority of AIG s General Insurance business is in the casualty classes, which tend to involve longer periods of time for the reporting and settling of claims. This may increase the risk and uncertainty with respect to AIG s loss reserve development.

Commercial Insurance

AIG s primary property casualty division is Commercial Insurance. Commercial Insurance s business in the United States and Canada is conducted through American Home, National Union, Lexington, HSB and certain other General

Insurance company subsidiaries of AIG. During 2008, Commercial Insurance accounted for 47 percent of AIG s General Insurance net premiums written.

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

In addition to writing substantially all classes of business insurance, including large commercial or industrial property insurance, excess liability, inland marine, environmental, workers compensation and excess and umbrella coverages, Commercial Insurance offers many specialized forms of insurance such as aviation, accident and health, equipment breakdown, directors and officers liability (D&O), difference-in-conditions, kidnap-ransom, export credit and political risk, and various types of professional errors and omissions coverages. Also included in Commercial Insurance are the operations of AIG Risk Management, which provides insurance and risk management programs for large corporate customers and is a leading provider of customized structured insurance products, and AIG Environmental, which focuses specifically on providing specialty products to clients with environmental exposures. Lexington writes surplus lines for risks on which conventional insurance companies do not readily provide insurance coverage, either because of complexity or because the coverage does not lend itself to conventional contracts. The AIG Worldsource Division introduces and coordinates AIG s products and services to U.S.-based multinational clients and foreign corporations doing business in the U.S.

Transatlantic

Transatlantic Holdings, Inc. (Transatlantic) subsidiaries offer reinsurance capacity on both a treaty and facultative basis both in the United States and abroad. Transatlantic structures programs for a full range of property and casualty products with an emphasis on specialty risk. Transatlantic is a public company owned 58.9 percent by AIG and therefore is included in AIG s consolidated financial statements.

Personal Lines

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

Mortgage Guaranty

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

On October 13, 2008, United Guaranty Residential Insurance Company (UGRIC) and United Guaranty Mortgage Indemnity Company (UGMIC) were downgraded from A+ to A- and placed on CreditWatch negative by S&P, and on February 13, 2009, UGRIC was downgraded from Aa3 to A3 and placed under review for possible downgrade by Moody s. All U.S-based mortgage insurers are currently subject to a Government Sponsored Enterprise (GSE) remediation plan as a result of industry-wide rating agency downgrades. UGRIC and UGMIC continue to write new domestic first-lien mortgage insurance and remain eligible mortgage insurers with Fannie Mae and Freddie Mac.

Foreign General Insurance

AIG s Foreign General Insurance group writes both commercial and consumer lines of insurance which is primarily underwritten through American International Underwriters (AIU), a marketing unit consisting of wholly owned agencies and insurance companies. The Foreign General Insurance group also includes business written by AIG s foreign-based insurance subsidiaries. The Foreign General Insurance group uses various marketing methods and multiple distribution channels to write both commercial and consumer lines insurance with certain refinements for local laws, customs and needs. AIU operates in Asia, the Pacific Rim, Europe, the U.K., Africa, the Middle East and Latin America. During 2008, the Foreign General Insurance group accounted for 32 percent of AIG s General Insurance net premiums written.

Discussion and Analysis of Consolidated Net Losses and Loss Expense Reserve Development

The reserve for net losses and loss expenses represents 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 investment income, where permitted. Net losses and loss expenses are charged to income as incurred.

The liability for unpaid claims and claims adjustment expense (loss reserves) established with respect to foreign business are set and monitored in terms of the currency in which payment is expected to be made. Therefore, no assumption is included for changes in currency rates. See also Note 1(dd) to the Consolidated Financial Statements.

Management reviews the adequacy of established loss reserves utilizing a number of analytical reserve development techniques. Through the use of these techniques, management is able to monitor the adequacy of AIG s established reserves and determine appropriate assumptions for inflation. 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 Losses and Loss Expense Reserve Development table presents the development of net losses and loss expense reserves for calendar years 1998 through 2008. Immediately following this table is a second table that presents all data on a basis that excludes asbestos and environmental net losses and loss expense 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 thus 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 losses and loss expense reserve of $25.29 billion at December 31, 2001, by the end of 2008 (seven years later) $36.35 billion had actually been paid in settlement of these net loss reserves. In addition, as reflected in the lower section of the table, the original undiscounted reserve of $26.71 billion was reestimated to be $46.69 billion at December 31, 2008. This increase from the original estimate generally results from a combination of a number of factors, including reserves being settled for larger amounts than originally estimated. The original estimates will also be increased or decreased 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 $107 million at December 31, 2008 related to December 31, 2007 net losses and loss expense reserves of $70.03 billion represents the cumulative amount by which reserves in 2007 and prior years have developed unfavorably during 2008.

The bottom of each table below presents the remaining undiscounted and discounted net loss reserve for each year. For example, in the table that excludes asbestos and environmental losses, for the 2003 year-end, the remaining undiscounted reserves held at December 31, 2008 are $15.40 billion, with a corresponding discounted net reserve of $14.36 billion.

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Analysis of Consolidated Losses and Loss Expense Reserve Development

The following table presents for each calendar year the losses and loss expense reserves and the development thereof including those with respect to asbestos and environmental claims. See also Management s Discussion and Analysis of Financial Condition and Results of Operations Operating Review General Insurance Operations Liability for unpaid claims and claims adjustment expense.

	1998	1999	2000	2001	2002	2003 (In millions)	2004	2005	2006	2007
es										
	$ 25,418	$ 25,636	$ 25,684	$ 26,005	$ 29,347	$ 36,228	$ 47,254	$ 57,476	$ 62,630	$ 69,288
in										
Ield)	897	1,075	1,287	1,423	1,499	1,516	1,553	2,110	2,264	2,429
es										
nted)	26,315	26,711	26,971	27,428	30,846	37,744	48,807	59,586	64,894	71,717
ve) as										
ater	7,205	8,266	9,709	11,007	10,775	12,163	14,910	15,326	14,862	16,531
later	12,382	14,640	17,149	18,091	18,589	21,773	24,377	25,152	24,388	
s										
	16,599	19,901	21,930	23,881	25,513	28,763	31,296	32,295		
later	20,263	23,074	26,090	28,717	30,757	33,825	36,804			
later	22,303	25,829	29,473	32,685	34,627	38,087				
ater	24,114	28,165	32,421	35,656	37,778					
s										
	25,770	30,336	34,660	38,116						
s later	27,309	31,956	36,497							
later	28,626	33,489								
ater	29,799									

	1998	1999	2000	2001	2002	2003 (In millions)	2004	2005	2006	2007
eld										
	$ 26,315	$ 26,711	$ 26,971	$ 27,428	$ 30,846	$ 37,744	$ 48,807	$ 59,586	$ 64,894	$ 71,7
	25,897	26,358	26,979	31,112	32,913	40,931	53,486	59,533	64,238	71,8
	25,638	27,023	30,696	33,363	37,583	49,463	55,009	60,126	64,764	
-	26,169	29,994	32,732	37,964	46,179	51,497	56,047	61,242		

	28,021	31,192	36,210	45,203	48,427	52,964	57,618			
	28,607	33,910	41,699	47,078	49,855	54,870				
	30,632	38,087	43,543	48,273	51,560					
r	33,861	39,597	44,475	49,803						
	34,986	40,217	45,767							
	35,556	41,168								
	36,161									
/	(9,846)	(14,457)	(18,796)	(22,375)	(20,714)	(17,126)	(8,811)	(1,656)	130	(15
rves	6,362	7,679	9,270	11,687	13,782	16,783	20,814	28,947	40,376	55,34
ount	453	537	644	768	903	1,040	1,190	1,398	1,691	2,11
rves	5,909	7,142	8,626	10,919	12,879	15,743	19,624	27,549	38,685	53,22

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The following table presents the gross liability (before discount), reinsurance recoverable and net liability recorded at each year-end and the reestimation of these amounts as of December 31, 2008:

	1998	1999	2000	2001	2002	2003 (In millions)	2004	2005	2006	20
l of	$ 36,973	$ 37,278	$ 39,222	$ 42,629	$ 48,173	$ 53,387	$ 63,431	$ 79,279	$ 82,263	$ 8
erable,	10,658	10,567	12,251	15,201	17,327	15,643	14,624	19,693	17,369	1
f Year	26,315	26,711	26,971	27,428	30,846	37,744	48,807	59,586	64,894	7
	55,592	61,885	68,507	73,240	74,920	75,807	76,619	82,943	82,923	8
rance	19,431	20,717	22,740	23,437	23,360	20,937	19,001	21,701	18,159	1
ability	36,161	41,168	45,767	49,803	51,560	54,870	57,618	61,242	64,764	7
iency)	(18,619)	(24,607)	(29,285)	(30,611)	(26,747)	(22,420)	(13,188)	(3,664)	(660)	

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

The following table presents for each calendar year the losses and loss expense reserves and the development thereof excluding those with respect to asbestos and environmental claims. See also Management s Discussion and Analysis of Financial Condition and Results of Operations Operating Review General Insurance Operations Liability for unpaid claims and claims adjustment expense.

	1998	1999	2000	2001	2002	2003 (In millions)	2004	2005	2006	2007	
es	$ 24,554	$ 24,745	$ 24,829	$ 25,286	$ 28,650	$ 35,559	$ 45,742	$ 55,227	$ 60,451	$ 67,597	$
n Ield)	897	1,075	1,287	1,423	1,499	1,516	1,553	2,110	2,264	2,429	
es nted)	25,451	25,820	26,116	26,709	30,149	37,075	47,295	57,337	62,715	70,026	
e) as											
ater	7,084	8,195	9,515	10,861	10,632	11,999	14,718	15,047	14,356	16,183	
later	12,190	14,376	16,808	17,801	18,283	21,419	23,906	24,367	23,535		
	16,214	19,490	21,447	23,430	25,021	28,129	30,320	31,163			

s							
later	19,732	22,521	25,445	28,080	29,987	32,686	35,481
later	21,630	25,116	28,643	31,771	33,353	36,601	
ater	23,282	27,266	31,315	34,238	36,159		
rs							
	24,753	29,162	33,051	36,353			
s later	26,017	30,279	34,543				
later	26,832	31,469					
ater	27,661						

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	1998	1999	2000	2001	2002	2003 (In millions)	2004	2005	2006	2
	$ 25,451	$ 25,820	$ 26,116	$ 26,709	$ 30,149	$ 37,075	$ 47,295	$ 57,337	$ 62,715	$
ty as of:										
	24,890	25,437	26,071	30,274	32,129	39,261	51,048	57,077	62,043	
	24,602	26,053	29,670	32,438	35,803	46,865	52,364	57,653	62,521	
	25,084	28,902	31,619	36,043	43,467	48,691	53,385	58,721		
	26,813	30,014	34,102	42,348	45,510	50,140	54,908			
	27,314	31,738	38,655	44,018	46,925	51,997				
	28,345	34,978	40,294	45,201	48,584					
	30,636	36,283	41,213	46,685						
	31,556	36,889	42,459							
	32,113	37,795								
	32,672									
ficiency)	(7,221)	(11,975)	(16,343)	(19,976)	(18,435)	(14,922)	(7,613)	(1,384)	194	
	5,011	6,326	7,916	10,332	12,425	15,396	19,427	27,558	38,986	
	453	537	644	768	903	1,040	1,190	1,398	1,691	
	4,558	5,789	7,272	9,564	11,522	14,356	18,237	26,160	37,295	

The following table presents the gross liability (before discount), reinsurance recoverable and net liability recorded at each year-end and the reestimation of these amounts as of December 31, 2008:

	1998	1999	2000	2001	2002	2003 (In millions)	2004	2005	2006	20
l of										
	$ 34,474	$ 34,666	$ 36,777	$ 40,400	$ 46,036	$ 51,363	$ 59,790	$ 73,808	$ 77,111	$ 8
erable,										
	9,023	8,846	10,661	13,691	15,887	14,288	12,495	16,472	14,396	1
f Year	25,451	25,820	26,116	26,709	30,149	37,075	47,295	57,336	62,715	7
	46,549	53,249	60,393	65,655	67,678	68,955	70,056	76,802	77,439	8
rance										
	13,877	15,454	17,934	18,970	19,094	16,958	15,148	18,081	14,918	1
ability	32,672	37,795	42,459	46,685	48,584	51,997	54,908	58,721	62,521	7
iency)	(12,075)	(18,583)	(23,616)	(25,255)	(21,642)	(17,592)	(10,266)	(2,994)	(328)	

The liability for unpaid claims and claims adjustment expense as reported in AIG s consolidated balance sheet at December 31, 2008 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, 2008 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.

The reserve for gross losses and loss expenses is prior to reinsurance and represents the accumulation for reported losses and IBNR. Management reviews the adequacy of established gross loss reserves in the manner previously described for net loss reserves.

For further discussion regarding net reserves for losses and loss expenses, see Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Segment Results General Insurance Operations Liability for unpaid claims and claims adjustment expense.

Life Insurance & Retirement Services Operations

AIG s Life Insurance & Retirement Services operations provide insurance, financial and investment-oriented products throughout the world. Insurance-oriented products consist of individual and group life, payout annuities (including structured settlements), endowment and accident and health policies. Retirement savings products consist generally of fixed and variable annuities.

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Foreign Life Insurance & Retirement Services

In its Foreign Life Insurance & Retirement Services businesses, AIG operates principally through ALICO, AIG Star Life, AIG Edison Life, AIA, Nan Shan and Philamlife. ALICO is incorporated in Delaware and all of its business is written outside the United States. ALICO has operations either directly or through subsidiaries in Europe, including the U.K., Latin America, the Caribbean, the Middle East, South Asia and the Far East, with Japan being the largest territory. AIA operates primarily in China (including Hong Kong), Singapore, Malaysia, Thailand, Korea, Australia, New Zealand, Vietnam, Indonesia and India. The operations in India are conducted through a joint venture, Tata AIG Life Insurance Company Limited. Nan Shan operates in Taiwan. Philamlife is the largest life insurer in the Philippines. AIG Star Life and AIG Edison Life operate in Japan. Operations in foreign countries comprised 80 percent of Life Insurance & Retirement Services premiums and other considerations in 2008.

The Foreign Life Insurance & Retirement Services companies have over 350,000 full and part-time agents, as well as independent producers, and sell their products largely to indigenous persons in local and foreign currencies. In addition to the agency outlets, these companies also distribute their products through direct marketing channels, such as mass marketing, and through brokers and other distribution outlets, such as financial institutions in 2008.

Domestic Life Insurance and Domestic Retirement Services

AIG s principal Domestic Life Insurance and Domestic Retirement Services operations include AGLA, AIG American General, AIG Annuity, USLIFE, VALIC and AIG SunAmerica. These companies utilize multiple distribution channels including independent producers, brokerage, career agents and financial institutions to offer life insurance, annuity and accident and health products and services, as well as financial and other investment products. The Domestic Life Insurance and Domestic Retirement Services operations comprised 20 percent of total Life Insurance & Retirement Services premiums and other considerations.

Reinsurance

AIG s General Insurance subsidiaries worldwide operate primarily by underwriting and accepting risks for their direct account and securing reinsurance on that portion of the risk in excess of the limit which they wish to retain. This operating policy differs from that of many insurance companies that will underwrite only up to their net retention limit, thereby requiring the broker or agent to secure commitments from other underwriters for the remainder of the gross risk amount.

Various AIG profit centers, including Commercial Insurance, AIU and AIG Risk Finance, as well as certain Life Insurance subsidiaries, use AIRCO as a reinsurer for certain of their businesses. In Bermuda, AIRCO discounts reserves attributable to certain classes of business assumed from other AIG subsidiaries.

For a further discussion of reinsurance, see Item 1A. Risk Factors Reinsurance; Management s Discussion and Analysis of Financial Condition and Results of Operations Risk Management Insurance Risk Management Reinsurance; and Note 1 to the Consolidated Financial Statements.

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Insurance Investment Operations

A significant portion of AIG s General Insurance and Life Insurance & Retirement Services revenues are derived from AIG s insurance investment operations. The following table summarizes the investment results of the insurance operations:

Years Ended December 31,	Annual Average Cash and Invested Assets: Cash (including short-term investments)(a)	Invested Assets(a)	Total (In millions)	Return on Average Cash and Invested Assets(b)	Return on Average Invested Assets(c)
General Insurance:					
2008	**$ 9,766**	**$ 111,435**	**$ 121,201**	**2.9%**	**3.1%**
2007	5,874	117,050	122,924	5.0	5.2
2006	3,201	102,231	105,432	5.4	5.6
2005	2,450	86,211	88,661	4.5	4.7
2004	2,012	73,338	75,350	4.2	4.4
Life Insurance & Retirement Services:					
2008	**$ 29,278**	**$ 385,980**	**$ 415,258**	**2.4%**	**2.6%**
2007	25,926	423,743	449,669	5.0	5.3
2006	13,698	392,348	406,046	4.9	5.1
2005	11,137	356,839	367,976	5.1	5.2
2004	7,737	309,627	317,364	4.9	5.1

(a) Including investment income due and accrued and real estate. Also, includes collateral assets invested under the securities lending program.

(b) Net investment income divided by the annual average sum of cash and invested assets.

(c) Net investment income divided by the annual average invested assets.

AIG s worldwide insurance investment policy places primary emphasis on investments in government and fixed income securities 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, in order to enhance returns on policyholders funds and generate net investment income. The ability to implement this policy is somewhat limited in certain territories as there may be a lack of attractive long-term investment opportunities or investment restrictions may be imposed by the local regulatory authorities.

Financial Services Operations

AIG s Financial Services subsidiaries engage in diversified activities including aircraft leasing, capital markets, consumer finance and insurance premium finance. Together, the Aircraft Leasing, Capital Markets and Consumer Finance operations generate the majority of the revenues produced by the Financial Services operations. A.I. Credit also contributes to Financial Services results principally by providing insurance premium financing for both AIG s policyholders and those of other insurers.

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. Revenues also result from the remarketing of commercial jet aircraft for ILFC s own account, and remarketing and fleet management services for airlines and financial institutions. See also Note 3 to Consolidated Financial Statements.

Capital Markets

Capital Markets is comprised of the operations of AIGFP, which 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. AIGFP also invests in a diversified portfolio of securities and principal investments and engages in borrowing activities that involve issuing standard and structured notes and other securities and entering into guaranteed investment agreements (GIAs). Due to the extreme market conditions experienced in 2008, the downgrades of AIG s credit ratings by the rating agencies, as well as AIG s intent to refocus on its core businesses, AIGFP has begun to unwind its businesses and 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. See Management s Discussion and Analysis of Financial Condition and Results of Operations Outlook Financial Services.

Consumer Finance

AIG s Consumer Finance operations in North America are principally conducted through AGF. AGF derives most of its revenues from finance charges assessed on real estate loans, secured and unsecured non-real estate loans and retail sales finance receivables. In the second quarter of 2008, AGF ceased its wholesale originations (originations through mortgage brokers). In light of severe stress in the U.S. housing sector, AGF also closed 179 branch offices and reduced new loan originations in the fourth quarter of 2008.

AIG s foreign consumer finance operations are principally conducted through AIGCFG. AIGCFG operates primarily in emerging and developing markets. AIGCFG has operations in Argentina, China, Brazil, Hong Kong, Mexico, the Philippines, Poland, Taiwan, Thailand, India and Colombia. Through February 18, 2009, AIGCFG had entered into contracts to sell certain of its operations in Taiwan, Thailand and the Philippines.

Asset Management Operations

AIG s Asset Management operations comprise a wide variety of investment-related services and investment products. These services and products are offered to individuals, pension funds and institutions (including AIG subsidiaries) globally through AIG s Spread-Based Investment business, Institutional Asset Management, and Brokerage Services and Mutual Funds business. Also included in Asset Management operations are the results of certain SunAmerica sponsored partnership investments.

Revenues and operating income (loss) for Asset Management are affected by the general conditions in the equity and credit markets. In addition, net realized gains (losses) and performance fee (carried interest) revenues are contingent upon various fund closings, maturity levels, investment management performance and market conditions.

Spread-Based Investment Business

AIG s Spread-Based Investment business includes the results of AIG s proprietary spread-based investment operations, the Matched Investment Program (MIP) and the Guaranteed Investment Contracts (GIC), which the MIP replaced. Due to the extreme market conditions experienced in 2008 and the downgrades of AIG s credit ratings, the MIP is currently in run-off. As previously disclosed, the GIC has been in run-off since the inception of the MIP in 2006. No additional debt issuances are expected for either the MIP or GIC for the foreseeable future.

Institutional Asset Management

AIG s Institutional Asset Management business, conducted through AIG Investments, provides an array of investment products and services globally to institutional investors, pension funds, AIG subsidiaries, AIG affiliates and high net worth investors. These products include traditional equity and fixed maturity securities, and a wide range of real estate, private banking and alternative asset classes. Services include investment advisory and sub-advisory services, investment monitoring and transaction structuring. Within the equity and fixed maturity asset classes, AIG Investments offers various forms of structured investments. Within the alternative asset class, AIG Investments offers hedge and private equity funds and fund-of-funds, direct investments and distressed debt investments. AIG Global Real Estate provides a wide range of real estate investment, development and management services for AIG subsidiaries, as well as for third-party institutional investors, pension funds and high net worth investors. AIG Global Real Estate also maintains a proprietary real estate investment portfolio through various joint venture platforms.

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AIG expects to divest its Institutional Asset Management businesses consisting of investment services that are offered to third-party clients. The businesses offered for sale exclude those investment services providing traditional fixed income and shorter duration asset and liability management for AIG s insurance company subsidiaries. AIG expects to continue relationships with the divested businesses for other investment management services used by those subsidiaries.

AIG Investments previously acquired alternative investments, primarily consisting of direct private equity and private equity fund investments, with the intention of warehousing such investments until the investment or economic benefit thereof could be transferred to a fund or other AIG-managed investment product. However, AIG Investments intended launch of such new products and funds has been indefinitely postponed. As a result of this decision, AIG will retain these investments with a net asset value of $1.1 billion at December 31, 2008 as proprietary investments until they can be divested. Unaffiliated investment commitments associated with these investments were approximately $720 million at December 31, 2008 and are expected to be funded over the next five years. AIG accounts for these investments based on the attributes of the investment using consolidation, equity or cost accounting methods, as appropriate.

Other Operations

AIG s Other operations include interest expense, restructuring costs, expenses of corporate staff not attributable to specific business segments, expenses related to efforts to improve internal controls, corporate initiatives, certain compensation plan expenses and the settlement costs more fully described in Note 14(a) to the Consolidated Financial Statements.

Certain AIG subsidiaries provide insurance-related services such as adjusting claims and marketing specialized products. Several wholly owned foreign subsidiaries of AIG operating in countries or jurisdictions such as Ireland, Bermuda, Barbados and Gibraltar provide insurance and related administrative and back office services to affiliated and unaffiliated insurance and reinsurance companies, including captive insurance companies unaffiliated with AIG.

For additional information regarding the business of AIG on a consolidated basis, the contributions made to AIG s consolidated revenues and operating income and the assets held by its General Insurance, Life Insurance & Retirement Services, Financial Services and Asset Management operations and Other operations, see Selected Financial Data, Management s Discussion and Analysis of Financial Condition and Results of Operations and Notes 1 and 3 to the Consolidated Financial Statements.

Locations of Certain Assets

As of December 31, 2008, approximately 39 percent of the consolidated assets of AIG were located in foreign countries (other than Canada), including $7.7 billion of cash and securities on deposit with foreign regulatory authorities. Foreign operations 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 such assets. Certain of the countries in which AIG s business is conducted have currency restrictions which generally cause a delay in a company s ability to repatriate assets and profits. See also Item 1A. Risk Factors Foreign Operations and Notes 1 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. AIG s operations have become more diverse and consumer-oriented, increasing the scope of regulatory supervision and the possibility of intervention. In light of AIG s liquidity problems in the third and fourth quarters 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;

restricting or prohibiting other payments to AIG;

requesting additional capital contributions by AIG;

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 or any with affiliates; and

requiring more frequent reporting, including with respect to capital and liquidity positions.

These and other actions have made it challenging for AIG to continue to engage in business in the ordinary course. AIG does not expect these conditions to change until its financial situation stabilizes.

In 1999, AIG became a unitary thrift holding company within the meaning of the Home Owners Loan Act (HOLA) when the Office of Thrift Supervision (OTS) granted AIG approval to organize AIG Federal Savings Bank. AIG is subject to OTS regulation, examination, supervision and reporting requirements. In addition, the OTS has enforcement authority over AIG and its subsidiaries. Among other things, this permits the OTS to restrict or prohibit activities that are determined to be a serious risk to the financial safety, soundness or stability of AIG s subsidiary savings association, AIG Federal Savings Bank.

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.

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 approval of policy forms and rates, the standards of solvency that must be met and maintained, including 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 AIG Property Casualty Group companies. AIG entered into capital maintenance agreements with these companies that set forth procedures through which AIG will provide ongoing capital support. Also, in order to allow the AIG Property Casualty Group companies to record as an admitted asset at December 31, 2008 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 $1.6 billion of letters of credit issued by several commercial banks in favor of certain AIG Property Casualty Group companies and funded trusts totalling $2.9 billion. Finally, AIG has agreed to contribute capital to the AIG Property Casualty Group companies that hold shares of Transatlantic if, upon selling their Transatlantic shares they receive less than the shares statutory book value. The amount of the capital contribution would equal the difference between the aggregate statutory book value of the shares they sold and the aggregate cash proceeds they received in respect to those shares.

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. Thus, inadequately capitalized general and life insurance companies may be identified. The U.S. RBC formula develops a risk-adjusted target level of statutory surplus by applying certain factors to various asset, premium and reserve items. Higher factors are applied to more risky items and lower factors are applied to less risky items. Thus, the target level of statutory surplus varies not only as a result of the insurer s size, but also based on the risk profile of the insurer s operations.

The RBC Model Law provides for four incremental levels of regulatory attention for insurers whose surplus is below the calculated RBC target. These levels of attention range in severity from requiring the insurer to submit a plan for corrective action to placing the insurer under regulatory control.

The statutory surplus of each of AIG s AIG Property Casualty Group and U.S.-based Life Insurance subsidiaries exceeded their RBC minimum required levels as of December 31, 2008.

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.

A substantial portion of AIG s General Insurance business and a majority of its Life Insurance 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. A change in control of AIG, such as that resulting from the issuance of the Series C Preferred Stock (described in Note 15 to the Consolidated Financial Statements), or changes in the ownership of a regulated subsidiary that may result from a disposition of the subsidiary or the repayment of outstanding amounts under the Fed Facility with subsidiary preferred equity, may also trigger change of control requirements in jurisdictions around the world and result in other regulatory actions.

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 16 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.

The insurance industry in particular is highly competitive. Within the United States, AIG s General Insurance subsidiaries compete with approximately 3,400 other stock companies, specialty insurance organizations, mutual companies and other underwriting organizations. AIG s Life Insurance & Retirement Services subsidiaries compete in the United States with approximately 2,100 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, uncertainty relating to AIG s financial condition and AIG s asset disposition plan, 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. Further, AIG has been and continues to be at a significant disadvantage in soliciting new customers. AIG expects these difficult conditions to continue for the foreseeable future.

Competition is also intense for key employees. The announced asset dispositions, decline in AIG s common stock price and uncertainty surrounding AIG s financial condition have adversely affected AIG s ability to retain key employees and to attract new employees. While AIG has granted retention awards and taken other steps to retain its key employees, no assurance can be given that these actions will be successful.

For a further discussion of the risks of AIG s disadvantage in soliciting new customers and losing key employees, see item 1A. Risk Factors Employees.

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. Prior to joining AIG in September 2008, Mr. Liddy served at the private equity investment firm of Clayton, Dubilier & Rice, Inc. during 2008. From January 1999 until his retirement in April 2008, Mr. Liddy served as Chairman of the Board of The Allstate Corporation (Allstate), the parent of Allstate Insurance Company. He also served as Chief Executive Officer of Allstate from January 1999 to December 2006 and President from January 1995 to May 2005. Ms. Reynolds was President and Chief Executive Officer of Safeco Corporation from January 2006 to September 2008 and Chairman from May 2008 to September 2008. Previously, Ms. Reynolds served as President and Chief Executive Officer of AGL Resources, an Atlanta-based energy holding company, from 2000 to 2005 and Chairman from 2002 to 2005. From January 2000 until joining AIG in May 2004, Dr. Frenkel served as Chairman of Merrill Lynch International, Inc. Prior to joining AIG in September 2006, Ms. Kelly served as Executive Vice President and General Counsel of MCI/WorldCom. Previously, she was Senior Vice President and General Counsel of Sears, Roebuck and Co. from 1999 to 2003. From June 2004 until joining AIG in May 2007, Mr. Kaslow was a managing partner of QuanStar Group, LLC (an advisory services firm), and, from January 2002 until May 2004, Mr. Kaslow was Senior Executive Vice President of Human Resources for Vivendi Universal (an entertainment and telecommunications company).

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Set forth below is information concerning the directors and executive officers of AIG as of February 18, 2009.

Name	Title	Age	Served as Director or Officer Since
Stephen F. Bollenbach	Director	66	2008
Dennis D. Dammerman	Director	63	2008
Martin S. Feldstein	Director	69	1987
Edward M. Liddy	Director and Chief Executive Officer	63	2008
George L. Miles, Jr.	Director	67	2005
Suzanne Nora Johnson	Director	51	2008
Morris W. Offit	Director	72	2005
James F. Orr III	Director	65	2006
Virginia M. Rometty	Director	50	2006
Michael H. Sutton	Director	67	2005
Edmund S. W. Tse	Director, Senior Vice Chairman Life Insurance	70	1996
Richard H. Booth	Vice Chairman Transition Planning and Chief Administrative Officer	61	2008
Jacob A. Frenkel	Vice Chairman Global Economic Strategies	64	2004
Anastasia D. Kelly	Vice Chairman Legal, Human Resources, Corporate Communications and Corporate Affairs	59	2006
Paula R. Reynolds	Vice Chairman Chief Restructuring Officer	52	2008
Frank G. Wisner	Vice Chairman External Affairs	70	1997
David L. Herzog	Executive Vice President and Chief Financial Officer	49	2005
Rodney O. Martin, Jr.	Executive Vice President Life Insurance	56	2002
Kristian P. Moor	Executive Vice President AIG Property Casualty Group	49	1998
Win J. Neuger	Executive Vice President	59	1995
Nicholas C. Walsh	Executive Vice President Foreign General Insurance	58	2005
Jay S. Wintrob	Executive Vice President Retirement Services	51	1999
William N. Dooley	Senior Vice President Financial Services	56	1992
Andrew J. Kaslow	Senior Vice President and Chief Human Resources Officer	58	2007
Robert E. Lewis	Senior Vice President and Chief Risk Officer	57	1993
Monika M. Machon	Senior Vice President and Chief Investment Officer	48	2009
Brian T. Schreiber	Senior Vice President Global Capital Planning and Analysis	43	2002

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Item 1A. *Risk Factors*

AIG has been significantly and adversely affected by recent events in the marketplace as well as in its businesses, and is subject to significant risks, as discussed below. 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 AIG. As a result, should certain of these risks emerge, AIG may need additional support from the U.S. government. Without additional support from the U.S. government, in the future there could exist substantial doubt about AIG s ability to continue as a going concern. See Management s Discussion and Analysis of Financial Condition and Results of Operations Consideration of AIG s Ability to Continue as a Going Concern and Note 1 to the Consolidated Financial Statements for a further discussion.

Proposed Transactions with the NY Fed and the United States Department of the Treasury

No assurance can be given that the NY Fed and the United States Department of the Treasury will complete the proposed transactions with AIG. AIG has entered into certain agreements in principle and announced intentions to enter into transactions with the NY Fed and the United States Department of the Treasury described below and in Note 23 to the Consolidated Financial Statements. These proposed transactions are designed to promote AIG s restructuring. Neither agreements in principle nor the intentions are legally binding, and neither the NY Fed nor the United States Department of the Treasury is bound to proceed with the transactions or complete them on the terms currently contemplated. AIG, however, expects to be able to complete these transactions and others necessary to enable an orderly restructuring and understands that the NY Fed and the United States Department of the Treasury remain committed to providing AIG with continued support. If AIG is unable to complete one or more of the proposed transactions, AIG s credit ratings may be downgraded and AIG may not be able to complete its restructuring plan. See Credit and Financial Strength Ratings for a discussion of the impact of a downgrade in AIG s credit ratings.

The proposed repayment of outstanding amounts under the Fed Facility with subsidiary preferred equity in holding companies for AIA and ALICO is complex and may need to be restructured. The NY Fed s proposed investment in two new holding companies for AIA and ALICO is unprecedented and it is possible that the terms of the exchange may change, perhaps materially.

Business and Credit Environment

AIG s businesses, results of operations and financial condition have been materially and adversely affected by market conditions and will be materially affected by these conditions for the foreseeable future. During 2008, worldwide economic conditions significantly deteriorated and the United States economy and most other major economies entered into a recession. It is difficult to predict how long global recessionary conditions will exist or the manner in which AIG s markets, products, financial condition and businesses will be negatively affected in the future.

The global financial crisis has resulted in a lack of liquidity, highly volatile markets, a steep depreciation in asset values across all classes, an erosion of investor 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. Global regulators, governments and central banks have taken a number of unprecedented steps to address these issues but these steps have so far failed to prevent financial markets from declining by a very substantial amount, both in percentage terms and in absolute terms. It is unclear whether these measures will be effective or, if effective, when markets will stabilize.

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

- the need to enter into transactions with the NY Fed and the United States Department of the Treasury, and to participate in generally available governmental programs addressing disruptions in financial markets;

- severe and continued declines in the valuation and performance of its investment portfolio across all asset classes, leading to decreased investment income, material unrealized and realized losses, including other-

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than-temporary impairments, both of which decreased AIG s shareholders equity and, to a lesser extent, the regulatory capital of its subsidiaries;

significant credit losses due to the failure of, or governmental intervention with respect to, several prominent institutions;

impairment of goodwill in its insurance and financial services businesses; and

a general decline in business activity leading to reduced premium volume, increases in surrenders or cancellations of policies and increased competition from other insurers.

The consequences of these conditions have been more severe for AIG than for other insurers. Since the third quarter of 2008, AIG s principal sources of liquidity have been the Fed Facility and issuances of commercial paper under the Commercial Paper Funding Facility established by the NY Fed (CPFF). Authorization for the CPFF to accept new issuances of commercial paper is set to expire on October 30, 2009, with all outstanding issuances under the program maturing by January 2010. Since mid-September 2008, AIG has had no access to funding in public markets.

Certain of AIG s in-force and new business products in its life insurance businesses provide minimum benefit guarantees and crediting rates. Low interest rates driven by recessionary or deflationary environments could result in a negative spread between the yield produced by AIG s investment portfolios and the underlying costs of these products. While potentially providing short-term benefits, long-term profitability of the business could be negatively affected by this negative spread and the volume and value of new business could be adversely affected by low interest rate environments.

Credit and Financial Strength Ratings

Adverse ratings actions regarding AIG s long-term debt ratings by the major rating agencies would require AIG to post a substantial amount of additional collateral payments pursuant to, and/or permit the termination of, derivative transactions to which AIGFP is a party, which could further adversely affect AIG s business and its consolidated results of operations, financial condition and liquidity. Additional obligations to post collateral or the costs of assignment, termination or obtaining alternative credit could exceed the amounts then available under the Fed Facility. In the third quarter of 2008, S&P, Moody s, Fitch and A.M. Best Company (A.M. Best) each downgraded the credit ratings of AIG Inc. and most of the Insurer Financial Strength Ratings of AIG s insurance operating subsidiaries. In particular, S&P downgraded AIG s long-term debt rating by three notches, Moody s downgraded AIG s long-term debt rating by two notches, Fitch downgraded AIG s long-term debt rating by two notches and A.M. Best downgraded AIG s issuer credit rating from a+ to bbb and most of AIG s Insurer Financial Strength Ratings from A+ to A.

Subsequent to the rating actions referred to above, the following rating actions were taken:

Moody s lowered AIG s Senior Unsecured Debt rating to A3 from A2 and ILFC s and American General Finance Corporation s (AGF Corp.) Senior Unsecured Debt ratings to Baa1 from A3. Most ratings remain under review for possible downgrade with ILFC revised to under review with direction uncertain.

S&P revised the CreditWatch status on AIG s and AGF Corp. s ratings from CreditWatch Developing to CreditWatch Negative in October 2008. Subsequently, S&P lowered its long-term debt rating on ILFC from A to BBB+, and its short-term debt rating from A−1 to A−2. The ratings remain on Credit Watch Developing. S&P lowered its long-term debt rating on AGF Corp. from BBB to BB+, and its short-term debt rating from

A–3 to B. The long-term debt ratings were assigned a Negative Outlook. S&P also revised the credit watch status of AIG s property and casualty subsidiaries from Credit Watch Developing to Credit Watch Negative.

Fitch lowered its long-term debt ratings on AGF Corp. from A to BBB. The ratings remain on Rating Watch Evolving. Fitch also removed the ratings of AIG, Inc. and its property and casualty subsidiaries from Rating Watch Evolving and assigned them a Stable Outlook.

A.M. Best affirmed the Insurer Financial Strength Ratings and Issuer Credit Ratings of the insurance subsidiaries of AIG, Inc. In addition A.M. Best affirmed the Issuer Credit Rating of AIG, Inc. These ratings were removed from Under Review with Negative Implications and assigned a Negative Outlook.

Credit ratings estimate a company s ability to meet its obligations and may directly affect the cost and availability to that company of unsecured financing and its eligibility for certain government sponsored funding programs such as the CPFF, as discussed below. In the event of a further downgrade of AIG s long-term senior debt ratings, AIGFP would be required to post additional collateral and AIG or certain of AIGFP s counterparties would be permitted to elect early termination of contracts.

It is estimated that as of the close of business on February 18, 2009, based on AIGFP s outstanding municipal GIAs, secured funding arrangements and financial derivative transactions (including AIGFP s super senior credit default swap portfolio) at that date, a one-notch downgrade of AIG s long-term senior debt ratings to Baa1 by Moody s and BBB+ by S&P would permit counterparties to make additional collateral calls and permit either AIGFP or the counterparties to elect early termination of contracts, resulting in up to approximately $8 billion of corresponding collateral postings and termination payments, a two-notch downgrade to Baa2 by Moody s and BBB by S&P would result in approximately $2 billion in additional collateral postings and termination payments, and a three-notch downgrade to Baa3 by Moody s and BBB- by S&P would result in approximately $1 billion in additional collateral and termination payments.

The actual amount of collateral that AIGFP would be required to post to counterparties in the event of such downgrades, or the aggregate amount of payments that AIG could be required to make, would depend on market conditions, the fair value of outstanding affected transactions and other factors prevailing at the time of the downgrade. If AIG is unable to secure sufficient additional funding through the Fed Facility or otherwise, AIG could become insolvent.

ILFC is a party to two Export Credit Agency (ECA) facilities that require ILFC to segregate security deposits and maintenance reserves related to aircraft financed under these facilities into separate accounts in the event of a downgrade in ILFC s credit ratings. In October 2008, Moody s downgraded ILFC s debt ratings, and ILFC was subsequently notified by the trustees under its ECA facilities that it would be required to segregate security deposits and maintenance reserves totaling approximately $260 million in separate accounts. Further downgrades would impose additional restrictions under these facilities, including the requirement to segregate rental payments and would require prior consent to withdraw funds from the segregated account.

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

A downgrade in the short-term credit ratings of the commercial paper programs of certain AIG affiliates could make these issuers ineligible for participation in the CPFF. AIG Funding and affiliates Curzon Funding LLC and Nightingale Finance LLC currently obtain financing through participation in the CPFF. As of February 18, 2009, AIG Funding, Curzon Funding LLC and Nightingale Finance LLC had $6.1 billion, $6.8 billion and $1.1 billion, respectively, outstanding under the CPFF. However, in the event of a downgrade of the short-term credit ratings applicable to the commercial paper programs of these issuers, they may no longer qualify for participation in the CPFF and would likely have significant difficulty obtaining access to alternative sources of liquidity. AIG s subsidiary, ILFC, participated in the CPFF at December 31, 2008, but on January 21, 2009, S&P downgraded ILFC s short-term debt rating and, as a result, ILFC lost access to the CPFF. The CPFF purchases only U.S. dollar-denominated commercial paper (including asset-backed commercial paper) that is rated at least A-1/P-1/F1 by a major nationally recognized statistical rating organization (NRSRO) or, if rated by multiple major NRSROs, is rated at least A-1/P-1/F1 by two or more major NRSROs. Accordingly, these AIG entities will lose access to the CPFF if:

AIG Funding s short-term rating is downgraded by any two of S&P, Moody s or Fitch;

Curzon Funding LLC s short-term rating is downgraded by either S&P or Moody s; or

Nightingale Finance LLC s short-term rating is downgraded by either S&P or Moody s.

Adverse rating actions could result in further reductions in credit limits extended to AIG and in a decline in the number of counterparties willing to transact with AIG or its affiliates. To appropriately manage risk, AIG needs trading counterparties willing to extend sufficient credit limits to purchase and sell securities, commodities and other assets, as well as to conduct hedging activities. To the extent that counterparties are unwilling to trade with or to extend adequate credit limits to AIG or its subsidiaries, AIG could be exposed to open positions or other unhedged risks, resulting in increased volatility of results and increased losses.

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

Further downgrades of the Insurer Financial Strength ratings of AIG s 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 s credit ratings may, under credit rating agency policies concerning the relationship between parent and subsidiary ratings, result in a downgrade of the Insurer Financial Strength ratings of AIG s insurance subsidiaries.

Liquidity

AIG parent s ability to access funds from its subsidiaries is severely limited. As a holding company, AIG parent depends significantly on dividends, distributions and other payments from its subsidiaries to fund payments due on AIG s obligations, including its debt securities. Further, the majority of AIG s investments are held by its regulated subsidiaries. In light of AIG s current financial situation, many of AIG s regulated subsidiaries have been significantly restricted from making dividend payments, or advancing funds, to AIG, and AIG expects these restrictions to continue. AIG s subsidiaries also are limited in their ability to make dividend payments or advance funds to AIG because of the need to retain funds to conduct their own operations. These factors may hinder AIG s ability to access funds that AIG may need to make payments on its obligations, including those arising from day-to-day business activities.

AIG parent s ability to support its subsidiaries is limited. Historically, AIG has provided capital and liquidity to its subsidiaries to maintain regulatory capital ratios, comply with rating agency requirements and meet unexpected cash flow obligations. AIG s current limited access to liquidity may reduce or prevent AIG from providing support to its subsidiaries. If AIG is unable to provide support to a subsidiary having an immediate capital need, the subsidiary could become insolvent or, in the case of an insurance subsidiary or other regulated entity, could be seized by its regulator.

A significant portion of AIG s investments are illiquid and are difficult to sell, or to sell in significant amounts at acceptable prices, to generate cash to meet AIG s needs. AIG s investments in certain securities, including certain fixed income securities and certain structured securities, direct private equities, limited partnerships, hedge funds, mortgage loans, flight equipment, finance receivables and real estate are illiquid. These asset classes represented approximately 31 percent of the carrying value of AIG s total cash and invested assets at December 31, 2008. In addition, the steep decline in the U.S. real estate market and the current disruption in the credit markets have materially adversely affected the liquidity of other AIG securities portfolios, including its residential and commercial mortgage-backed securities portfolios. If AIG requires significant amounts of cash on short notice in excess of anticipated cash requirements or is required to post or return collateral in connection with AIGFP s derivative transactions, then AIG may have difficulty selling these investments or terminating these transactions in a timely manner or may be forced to sell or terminate them at unfavorable values.

If AIG fails to maintain compliance with the continued listing standards of the New York Stock Exchange (NYSE), the NYSE may initiate suspension and de-listing procedures, which will have a material adverse effect on the liquidity of AIG s common stock. AIG s common stock and other securities are listed on the NYSE. AIG is subject to the NYSE s continued listing requirements, including, among other things, the requirement that AIG maintain an average closing price equal to at least $1.00 over each consecutive 30-day trading period. The share price of AIG s common stock has declined significantly since the third quarter of 2008, and recently has begun to close below $1.00. AIG has not been informed of any non-compliance by the NYSE, but there is no assurance that AIG will be able to maintain compliance with the NYSE s continued listing standards or that, in the event of non-compliance, the NYSE will not take action to suspend and de-list AIG s securities from trading. A de-listing would have a significant adverse effect on the liquidity of AIG s common stock, making it more difficult and expensive for AIG to raise additional capital.

Fed Facility and Series D Preferred Stock

The Fed Credit Agreement and the Series D Preferred Stock require AIG to devote significant resources to debt repayment and preferred stock dividends for the foreseeable future, thereby significantly reducing capital available for other purposes. AIG is required to repay the five-year Fed Facility primarily from the proceeds of sales of assets, including businesses. The amount available under the Fed Facility is permanently reduced by the amount of such repayments as they are made. In addition, the $40 billion liquidation preference of the Series D Fixed Rate Cumulative Perpetual Preferred Stock (Series D Preferred Stock) issued to the United States Department of the Treasury accumulates dividends at 10 percent per year. These dividends, and the dividends on any other series of preferred stock issued by AIG, are not deductible for tax purposes.

AIG s significant obligations require it to dedicate all of its proceeds from asset dispositions and a considerable portion of its cash flows from operations to the repayment of the Fed Facility, thereby reducing the funds available for investment in its businesses. Moreover, because AIG s debt service and preferred stock dividend obligations are very high, AIG may be more vulnerable to competitive pressures and have less flexibility to plan for or respond to changing business and economic conditions.

A further inability to effect asset sales in accordance with its asset disposition plan or to do so at acceptable prices could result in AIG not being able to repay its borrowings under the Fed Facility. See Capital Resources and Liquidity Requirements Asset Disposition Plan for a discussion of AIG s asset disposition plan.

Borrowings available to AIG under the Fed Facility may not be sufficient to meet AIG s funding needs and additional financing may not be available or could be prohibitively expensive. Additional collateral calls, continued high surrenders of annuity and other policies, further downgrades in AIG s credit ratings or a further deterioration in AIGFP s remaining super senior credit default swap portfolio could cause AIG to require additional funding in excess of the borrowings available under the Fed Facility. In that event, AIG would be required to find additional financing and new financing sources. In the current business environment such financing could be difficult, if not impossible, to obtain and, if available, very expensive, and additional funding from the NY Fed, United States Department of the Treasury or other government sources may not be available. If AIG is unable to obtain sufficient financing to meet its capital needs, AIG could become insolvent.

Borrowings under the Fed Facility are subject to the NY Fed being satisfied with the collateral pledged by AIG. A condition to borrowing under the Fed Facility is that the NY Fed be satisfied with the collateral pledged by AIG (including its value). It is possible that the NY Fed may determine that AIG s collateral is insufficient to permit a borrowing for many reasons including:

- a decline in the value of AIG s businesses;
- poor performance in one or more of AIG s businesses; and
- low prices received by AIG in its asset disposition plan.

Such a determination could limit AIG s ability to borrow under the Fed Facility.

AIG must sell or otherwise dispose of significant assets to service the debt under the Fed Facility. AIG must make asset dispositions to repay the borrowings under the Fed Facility. A continued delay or inability to effect these dispositions at acceptable prices and on acceptable terms could result in AIG being unable to repay the Fed Facility by its maturity date.

While AIG has adopted an asset disposition plan, as discussed in Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity Asset Disposition Plan, this plan may not be successfully executed due to, among other things:

an inability of purchasers to obtain funding due to the deterioration in the credit markets;

a general unwillingness of potential buyers to commit capital in the difficult current market environment;

an adverse change in interest rates and borrowing costs; and continued declines in AIG asset values and deterioration in its businesses.

Further, AIG may be unable to negotiate favorable terms in connection with asset sales, including with respect to price. As a result, AIG may need to modify its asset disposition plan to sell additional or different assets.

If AIG is not able to repay the Fed Facility from the proceeds of asset dispositions and cannot otherwise repay the Fed Facility in accordance with its terms, an event of default would result. In such an event, the NY Fed could enforce its security interest in AIG s pledged collateral. In addition, an event of default or declaration of acceleration under the Fed Credit Agreement could also result in an event of default under other agreements. In such an event, AIG would likely not have sufficient liquid assets to meet its obligations under such agreements.

The Fed Credit Agreement includes financial and other covenants that impose restrictions on AIG s financial and business operations. The Fed Credit Agreement requires AIG to maintain a minimum aggregate liquidity level and restricts AIG s ability to make certain capital expenditures. The Fed Credit Agreement also restricts AIG s and its restricted subsidiaries ability to incur additional indebtedness, incur liens, merge, consolidate, sell assets, enter into hedging transactions outside the normal course of business, or pay dividends. These covenants could restrict AIG s business and thereby adversely affect AIG s results of operations.

Moreover, if AIG fails to comply with the covenants in the Fed Credit Agreement and is unable to obtain a waiver or amendment, an event of default would result. If an event of default were to occur, the NY Fed could, among other things, declare outstanding borrowings under the Fed Credit Agreement immediately due and payable and enforce its security interest in AIG s pledged collateral. In addition, an event of default or declaration of acceleration under the Fed Credit Agreement could also result in an event of default under AIG s other agreements.

AIG s results of operations and cash flows will be materially and adversely affected by a significant increase in interest expense and preferred stock dividends paid. AIG expects its results of operations in 2009 and in future periods to be significantly adversely affected by the recognition of interest expense on borrowings under the Fed Facility and by the payment of significant preferred stock dividends. In addition, the prepaid commitment fee asset of $23 billion associated with the Series C Preferred Stock (described below) was capitalized and is being amortized through interest expense over the term of the Fed Facility, which is five years.

The Series D Preferred Stock accrues dividends, payable if, as and when declared, at a rate of 10 percent per annum, or $4 billion, on the $40 billion of liquidation preference, which are not tax deductible.

Controlling Shareholder

Following the issuance of the Series C Preferred Stock to the AIG Credit Facility Trust, a trust for the sole benefit of the United States Treasury, the Trust, which is overseen by three independent trustees, will hold a controlling interest in AIG. AIG s interests and those of AIG s minority shareholders may not be the same as those of the Trust or the United States Treasury. In accordance with the Fed Credit Agreement, in early March 2009, AIG expects to issue 100,000 shares of Series C Perpetual, Convertible, Participating Preferred Stock, par value $5.00 per share and at an initial liquidation preference of $5.00 per share (the Series C Preferred Stock), to the AIG Credit Facility Trust, a trust for the sole benefit of the United States Treasury (together with its trustees, the Trust) established under the AIG Credit Facility Trust Agreement dated as of January 16, 2009 (as it may be amended from time to time, the Trust Agreement). The Trust will hold the Series C Preferred Stock for the sole benefit of the United States Treasury. The Series C Preferred Stock is entitled to:

participate in any dividends paid on the common stock, with the payments attributable to the Series C Preferred Stock being approximately 77.9 percent of the aggregate dividends paid on common stock, treating the Series C Preferred Stock as converted; and

to the extent permitted by law, vote with AIG s common stock on all matters submitted to AIG s shareholders and hold approximately 77.9 percent of the aggregate voting power of common stock, treating the Series C Preferred Stock as converted.

The dividends payable on and the total voting power of (i) the shares of common stock underlying the Series C Preferred Stock, (ii) the 53,798,766 shares of common stock underlying the warrants issued to the United States Department of the Treasury on November 25, 2008 and (iii) the shares of common stock underlying the warrants to be issued to the United States Department of the Treasury in connection with the capital commitment facility will not exceed 79.9 percent of the aggregate dividends payable on and the voting power of the outstanding shares of common stock, treating the Series C Preferred Stock as converted.

The Series C Preferred Stock will remain outstanding even if the Fed Facility is repaid in full or otherwise terminates. In addition, upon shareholder approval and the filing with the Delaware Secretary of State of certain amendments to AIG s Restated Certificate of Incorporation, the Trust can convert at its option all or a portion of the Series C Preferred Stock into common stock.

As a result of its ownership of the Series C Preferred Stock, the Trust will be able, subject to the terms of the Trust Agreement and the Series C Preferred Stock, to elect all of AIG s directors and will be able, to the extent permitted by law, to control the vote on substantially all matters, including:

approval of mergers or other business combinations;

a sale of all or substantially all of AIG s assets;

issuance of any additional common stock or other equity securities;

the selection and tenure of AIG s Chief Executive Officer and other executive officers; and

other matters that might be favorable to the United States Treasury.

Moreover, the Trust s ability to prevent any change in control of AIG could also have an adverse effect on the market price of the common stock.

The Trust may also, subject to the terms of the Trust Agreement and applicable securities laws, transfer all, or a portion of, the Series C Preferred Stock to another person or entity and, in the event of such a transfer, that person or entity could become the controlling shareholder.

Possible future sales of Series C Preferred Stock or common stock by the Trust could adversely affect the market for AIG common stock. Pursuant to the Series C Preferred Stock Purchase Agreement, dated as of March 1, 2009, between the Trust and AIG (the Series C Preferred Stock Purchase Agreement), AIG has agreed to file a shelf registration statement that will allow the Trust to publicly sell Series C Preferred Stock or any shares of common stock it receives upon conversion of the Series C Preferred Stock. In addition, the Trust could sell Series C Preferred Stock or shares of common stock without registration under certain circumstances, such as in a private transaction. Although AIG can make no prediction as to the effect, if any, that such sales would have on the market price of common stock, sales of substantial amounts of Series C Preferred Stock or common stock, or the perception that such sales could occur, could adversely affect the market price of common stock. If the Trust sells or transfers shares of Series C Preferred Stock or common stock as a block, another person or entity could become AIG s controlling shareholder.

Change of Control

The issuance of the Series C Preferred Stock may have adverse consequences for AIG and its subsidiaries with regulators and contract counterparties. The issuance of the Series C Preferred Stock will result in a change of control of AIG. A change of control of AIG triggers notice, approval and/or other regulatory requirements in many of the more than 130 countries and jurisdictions in which AIG and its subsidiaries operate. AIG has undertaken a worldwide review of the regulatory requirements arising in connection with the issuance of the Series C Preferred Stock, and has worked to achieve material compliance with applicable regulatory requirements. In this connection, AIG has submitted notices to regulators in the jurisdictions where its principal businesses are located, and currently has no knowledge that any regulator intends to impose any penalties or take any other actions as a result of the change in control of AIG in a manner that would be adverse in any material respect to AIG. However, in light of the large number of jurisdictions in which AIG and its subsidiaries operate and the complexity of assessing and addressing the regulatory requirements in each of the relevant jurisdictions, AIG has not been able to obtain all regulatory consents or approvals that may be required in connection with the issuance of the Series C Preferred Stock. Accordingly, no assurances can be provided that the failure to obtain all required consents or approvals will not have a material adverse effect on AIG s consolidated financial condition, results of operations or cash flows.

AIG and its subsidiaries are also parties to various contracts and other agreements that may be affected by a change of control of AIG. Although AIG believes the change of control arising from the issuance of the Series C

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Preferred Stock will not result in a breach of any material contract or agreement, no assurances can be given that AIG s counterparties to such contracts and agreements will not claim that breaches have occurred. If AIG were to be found to have breached any material contract or agreement, its consolidated financial condition, results of operations or cash flows could be materially adversely affected.

Concentration of Investments and Exposures

Concentration of AIG s investment portfolios in any particular segment of the economy may have adverse effects. AIG 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. AIG also has significant exposures to financial institutions and, in particular, to money center and global banks. These types of concentrations in AIG s investment portfolios could have an adverse effect on the investment portfolios and consequently on AIG s consolidated results of operations or financial condition. While AIG seeks to mitigate this risk by having a broadly diversified portfolio, 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, AIG s 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.

Concentration of AIG s insurance and other risk exposures may have adverse effects. AIG seeks to manage the risks to which it is exposed as a result of the insurance policies, derivatives and other obligations that it undertakes to customers and counterparties by monitoring the diversification of its 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 it wishes to retain. In certain circumstances, or with respect to certain exposures, such risk management arrangements may not be available on acceptable terms, or AIG s exposure in absolute terms may be so large that even slightly adverse experience compared to AIG s expectations may cause a material adverse effect on AIG s consolidated financial condition or results of operations.

Casualty Insurance Underwriting and Reserves

Casualty insurance liabilities are difficult to predict and may exceed the related reserves for losses and loss expenses. AIG has announced that it intends to focus its resources on its core property and casualty insurance businesses while selling other businesses to repay the borrowing under the Fed Credit Agreement. As a result, AIG expects to become more reliant on these businesses.

Although AIG annually reviews the adequacy of the established liability for unpaid claims and claims adjustment expense, there can be no assurance that AIG s loss reserves will not develop adversely and have a material adverse effect on AIG s results of operations. Estimation of ultimate net losses, loss expenses and loss reserves is a complex process for long-tail casualty lines of business, which include excess and umbrella liability, D&O, professional liability, medical malpractice, workers compensation, general liability, products liability and related classes, as well as for asbestos and environmental exposures. Generally, actual historical loss development factors are used to project future loss development. However, there can be no assurance that future loss development patterns will be the same as in the past. Moreover, any deviation in loss cost trends or in loss development factors might not be discernible for an extended period of time subsequent to the recording of the initial loss reserve estimates for any accident year. 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 AIG s loss reserves see also Management s Discussion and Analysis of Financial Condition and Results of Operations Segment Results General Insurance Operations Liability for unpaid claims and claims adjustment expense.

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Catastrophe Exposures

The occurrence of catastrophic events could adversely affect AIG s 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 AIG s consolidated financial condition or results of operations, including by exposing AIG s businesses to the following:

- widespread claim costs associated with property, workers compensation, mortality and morbidity claims;
- loss resulting from the value of invested assets declining 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. AIG subsidiaries are major purchasers of reinsurance and utilize reinsurance as part of AIG s 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 AIG s control determine the availability and cost of the reinsurance purchased by AIG subsidiaries. For example, reinsurance may be more difficult to obtain after a year with a large number of major catastrophes. Accordingly, AIG may be forced to incur additional expenses for reinsurance or may be unable to obtain sufficient reinsurance on acceptable terms, in which case AIG would have to accept an increase in exposure risk, reduce the amount of business written by its subsidiaries or seek alternatives.

Reinsurance subjects AIG to the credit risk of its reinsurers and may not be adequate to protect AIG against losses. Although reinsurance makes the reinsurer liable to the AIG subsidiary to the extent the risk is ceded, it does not relieve the AIG subsidiary of the primary liability to its policyholders. Accordingly, AIG bears credit risk with respect to its subsidiaries reinsurers to the extent 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 the AIG subsidiaries could have a material adverse effect on AIG s results of operations and liquidity. For additional information on AIG s reinsurance, see Management s Discussion and Analysis of Financial Condition and Results of Operations Risk Management Reinsurance.

Policyholder Behavior

AIG s policyholders, agents and other distributors of AIG s insurance products have expressed significant concerns in the wake of announcements by AIG of adverse financial results. AIG expects that these concerns will be exacerbated by the announcement of AIG s 2008 results. Many of AIG s businesses depend upon the financial stability (both actual and perceived) of AIG s parent company. Concerns that AIG or its subsidiaries may not be able to meet their obligations have negatively affected AIG s businesses in many ways, including:

- requests by customers to withdraw funds from AIG under annuity and certain life insurance contracts;
- a refusal by independent agents, brokers and banks to continue to offer AIG products and services;

- a refusal of counterparties, customers or vendors to continue to do business with AIG; and
- requests by customers and other parties to terminate existing contractual relationships.

Continued economic uncertainty, additional adverse results or a lack of confidence in AIG and AIG s businesses may cause AIG customers, agents and other distributors to cease or reduce their dealings with AIG, turn to competitors or shift to products that generate less income for AIG. Although AIG has announced its intent to refocus its business and certain AIG subsidiaries are rebranding themselves in an attempt to overcome a perception of instability, AIG cannot be sure that such efforts will be successful in attracting or maintaining clients.

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Foreign Operations

Foreign operations expose AIG to risks that may affect its operations, liquidity and financial condition. AIG provides insurance, investment and other financial products and services to both businesses and individuals in more than 130 countries and jurisdictions. A substantial portion of AIG s General Insurance business and a majority of its Life Insurance & Retirement Services business is conducted outside the United States. 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 other AIG operations.

The degree of regulation and supervision in foreign jurisdictions varies. Generally, AIG, as well as its subsidiaries 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. Adverse actions from any single country could adversely 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.

Employees

Because of the decline in the value of equity awards previously granted to employees and the uncertainty surrounding AIG s asset disposition program, AIG may be unable to retain key employees, including individuals critical to the execution of its disposition plan. AIG relies upon the knowledge and talent of its employees to successfully conduct business. The decline in AIG s common stock price has dramatically reduced the value of equity awards previously granted to its key employees. Also, the announcement of proposed asset dispositions has resulted in competitors seeking to hire AIG s key employees. AIG has implemented retention programs to seek to keep its key employees, but there can be no assurance that the programs will be effective. A loss of key employees could reduce the value of AIG s businesses and impair its ability to effect a successful asset disposition plan.

A loss of key employees in AIG s financial reporting process could prevent AIG from making required filings, preparing financial statements and otherwise adversely affect its internal controls. AIG relies upon the knowledge and experience of the employees involved in these functions for the effective and timely preparation of required filings and financial statements and operation of internal controls. If these employees depart, AIG may not be able to replace them with individuals having comparable knowledge and experience.

The limitations on incentive compensation contained in the American Recovery and Reinvestment Act of 2009 may adversely affect AIG s ability to retain its highest performing employees. On February 17, 2009, the American Recovery and Reinvestment Act of 2009 (Recovery Act) was signed into law. The Recovery Act contains restrictions on bonus and other incentive compensation payable to the five executives named in a company s proxy statement and the next twenty highest paid employees of companies receiving TARP funds. Historically, AIG has embraced a pay-for-performance philosophy. Depending upon the limitations placed on incentive compensation by the final regulations issued under the Recovery Act, it is possible that AIG may be unable to create a compensation structure that permits AIG to retain its highest performing employees. If this were to occur, AIG s asset disposition plan, businesses and results of operations would be adversely affected, perhaps materially.

Conflicts of interest may arise as AIG implements its asset disposition plan. AIG relies on certain key employees to operate its businesses during the asset disposition period, to provide information to prospective buyers and to maximize the value of businesses to be divested. The successful completion of the asset disposition plan could be adversely affected by any conflict of interests between AIG and its employees arising as a result of the asset disposition process.

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, both generally, and during the asset disposition process. 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 AIG runs the risk that employee misconduct could occur. It is not always possible to deter or prevent employee misconduct and the controls that AIG has in place to prevent and detect this activity may not be effective in all cases.

Regulation

AIG is subject to extensive regulation in the jurisdictions in which it conducts its businesses, and recent regulatory actions have made it challenging for AIG to continue to engage in business in the ordinary course. AIG s 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. AIG s operations have become more diverse and consumer-oriented, increasing the scope of regulatory supervision and the possibility of intervention. In light of AIG s liquidity issues 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;

Restricting or prohibiting other payments to AIG;

Requesting additional capital contributions by AIG;

Requesting that intercompany reinsurance reserves be covered by assets locally;

Restricting the business in which the subsidiaries may engage; and

Requiring pre-approval of all proposed transactions between the regulated subsidiaries and AIG or any affiliate.

AIG does not expect these conditions to change unless its financial situation stabilizes.

Adjustments to Life Insurance & Retirement Services Deferred Policy Acquisition Costs

Interest rate fluctuations, increased surrenders and other events may require AIG subsidiaries to accelerate the amortization of deferred policy acquisition costs (DAC) which could adversely affect AIG s consolidated financial condition or 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, requiring AIG subsidiaries to accelerate 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, AIG s 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 the actual emergence of future profitability were to be substantially lower than estimated, AIG could be required to accelerate its DAC amortization and such acceleration could adversely affect AIG s results of operations. For a further discussion of DAC, see also Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Estimates and Notes 1 and 8 to the Consolidated Financial Statements.

Risk Management

AIG is exposed to a number of significant risks, and AIG s risk management policies, processes and controls may not be effective in mitigating AIG s risk exposures in all market conditions and to all types of risk. The major risks to which AIG is exposed include credit risk, market risk, including credit spread risk, operational risk, liquidity risk and insurance risk. Given continued capital markets volatility, persistent risk aversion, inadequate liquidity in the markets of many asset classes, combined with AIG s weakened financial condition, AIG may not have adequate risk management policies, tools and processes and AIG may not have sufficient access to the markets and trading counterparties to effectively implement risk mitigating strategies and techniques. This environment could materially and adversely affect AIG s consolidated results of operations, liquidity or financial condition, result in regulatory action or litigation or further damage AIG s reputation. For a further discussion of AIG s risk management process and controls, see Management s Discussion and Analysis of Financial Condition and Results of Operations Risk Management.

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Operational risks of asset dispositions. AIG is exposed to various operational risks associated with the dispositions of subsidiaries and the resulting restructuring of AIG at the business and corporate levels. These risks include the ability to deconsolidate systems and processes of divested operations without adversely affecting AIG, the ability of AIG to fulfill its obligations under any transition separation agreements agreed upon with buyers, the ability of AIG to downsize the corporation as dispositions are accomplished and the ability of AIG to continue to provide services previously performed by divested entities.

AIGFP wind-down risks. An orderly and successful wind-down of AIGFP s businesses and portfolios is subject to numerous risks, including market conditions, counterparty willingness to transact, or terminate transactions, with AIGFP and the retention of key personnel. An orderly and successful wind-down will also depend on the stability of AIG s credit ratings. Further downgrades of AIG s credit ratings likely would have an adverse effect on the wind-down of AIGFP s businesses and portfolios.

Use of Estimates

If actual experience differs from management s estimates used in the preparation of financial statements, AIG s 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. AIG considers that its 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. For example, recent market volatility and declines in liquidity have made it more difficult to value certain of AIG s invested assets and the obligations and collateral relating to certain financial instruments issued or held by AIG, such as AIGFP s super senior credit default swap portfolio. Additionally, the recoverability of deferred tax assets depends in large part on assumptions about future profitability. 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.

Legal Proceedings

Significant legal proceedings may adversely affect AIG s results of operations. AIG is party to numerous legal proceedings, including securities class actions and regulatory or governmental investigations. Due to the nature of the litigation, the lack of precise damage claims and the type of claims made against AIG, AIG cannot currently quantify its ultimate liability for these actions. It is possible that developments in these unresolved matters could have a material adverse effect on AIG s consolidated financial condition or consolidated results of operations for an individual reporting period. For a discussion of these unresolved matters, see Note 14 to the Consolidated Financial Statements.

Aircraft Suppliers

There are limited suppliers of aircraft and engines. The supply of jet transport aircraft, which ILFC purchases and leases, is dominated by two airframe manufacturers, Boeing and Airbus, and a limited number of engine manufacturers. As a result, ILFC is dependent on the manufacturers success in remaining financially stable, producing aircraft and related components which meet the airlines demands, both in type and quantity, and fulfilling their contractual obligations to ILFC. Competition between the manufacturers for market share is intense and may lead to instances of deep discounting for certain aircraft types that could negatively affect ILFC s competitive pricing.

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 2,000 offices in the United States, 41 in Puerto Rico, 8 in Canada and numerous offices in over 100 foreign countries. The offices in Greensboro and Winston-Salem, North Carolina; Springfield, Illinois; Amarillo, Ft. Worth, Houston and Lewisville, Texas; Wilmington, Delaware; San Juan, Puerto Rico; Tampa, Florida; Livingston, New Jersey; Evansville, Indiana; Nashville, Tennessee; 70 Pine Street, 72 Wall Street and 175 Water Street in New York, New York; and offices in more than 30 foreign countries and jurisdictions including Bermuda, Chile, Hong Kong, the Philippines, Japan, the U.K., Singapore, Malaysia, Switzerland, Taiwan and Thailand are located in buildings owned by AIG and its subsidiaries. The remainder of the office space utilized by AIG subsidiaries is leased.

Item 3. ***Legal Proceedings***

For a discussion of legal proceedings, see Note 14(a) to the Consolidated Financial Statements, which is incorporated herein by reference.

Item 4. ***Submission of Matters to a Vote of Security Holders***

There were no matters submitted to a vote of security holders during the fourth quarter of 2008.

Part II

Item 5. ***Market for the 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 sales prices on the New York Stock Exchange Composite Tape and the dividends paid per share of AIG s common stock for each quarter of 2008 and 2007:

	2008			2007		
	High	Low	Dividends Paid	High	Low	Dividends Paid
First quarter	**$ 59.32**	**$ 39.80**	**$ 0.200**	$ 72.15	$ 66.77	$ 0.165
Second quarter	**49.04**	**26.46**	**0.200**	72.65	66.49	0.165
Third quarter	**30.10**	**2.05**	**0.220**	70.44	61.64	0.200
Fourth quarter	**4.00**	**1.35**		70.11	51.33	0.200

The approximate number of record holders of common stock as of January 30, 2009 was 58,182.

Under the Fed Credit Agreement, AIG is restricted from paying dividends on its common stock.

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 severely limited, and Note 15 to the Consolidated Financial Statements.

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 2009 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.

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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, 2003 to December 31, 2008) with the cumulative total return of the S&P s 500 stock index (which includes AIG) and a peer group of companies consisting of nine insurance companies to which AIG compares its business and operations: ACE Limited, Aflac Incorporated, The Chubb Corporation, The Hartford Financial Services Group, Inc., Lincoln National Corporation, MetLife, Inc., Prudential Financial, Inc., The Travelers Companies, Inc. (formerly The St. Paul Travelers Companies, Inc.) and XL Capital Ltd.

FIVE-YEAR CUMULATIVE TOTAL SHAREHOLDER RETURNS
Value of $100 Invested on December 31, 2003

	As of December 31,					
	2003	**2004**	**2005**	**2006**	**2007**	**2008**
AIG	$ 100.00	$ 99.48	$ 104.31	$ 110.62	$ 91.00	**$ 2.64**
S&P 500	100.00	110.88	116.33	134.70	142.10	**89.53**
Peer Group	100.00	115.57	142.12	164.44	171.76	**99.39**

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Item 6. ***Selected Financial Data***

American International Group, Inc. and Subsidiaries
Selected Consolidated 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.

	Years Ended December 31,				
	2008	**2007**	**2006(a)**	**2005(a)**	**2004(a)**
	(In millions, except per share data)				
Revenues*(b)(c)*:					
Premiums and other considerations	$ 83,505	$ 79,302	$ 74,213	$ 70,310	$ 66,704
Net investment income	12,222	28,619	26,070	22,584	19,007
Net realized capital gains (losses)	(55,484)	(3,592)	106	341	44
Unrealized market valuation losses on AIGFP super senior credit default swap portfolio	(28,602)	(11,472)			
Other income	(537)	17,207	12,998	15,546	12,068
Total revenues	11,104	110,064	113,387	108,781	97,823
Benefits, claims and expenses:					
Policyholder benefits and claims incurred	63,299	66,115	60,287	64,100	58,600
Policy acquisition and other insurance expenses*(f)*	27,565	20,396	19,413	17,773	16,049
Interest expense*(g)*	17,007	4,751	3,657	2,572	2,013
Restructuring expenses and related asset impairment and other expenses	758				
Other expenses	11,236	9,859	8,343	9,123	6,316
Total benefits, claims and expenses	119,865	101,121	91,700	93,568	82,978
Income (loss) before income tax expense (benefit), minority interest and cumulative effect of change in accounting principles*(b)(c)(d)(e)*	(108,761)	8,943	21,687	15,213	14,845
Income tax expense (benefit)*(h)*	(8,374)	1,455	6,537	4,258	4,407
Income (loss) before minority interest and cumulative effect of change in accounting principles	(100,387)	7,488	15,150	10,955	10,438
Minority interest	1,098	(1,288)	(1,136)	(478)	(455)
Income (loss) before cumulative effect of change in accounting principles	(99,289)	6,200	14,014	10,477	9,983
Cumulative effect of change in accounting principles, net of tax			34		(144)

Net income (loss)	(99,289)	6,200	14,048	10,477	9,839
Earnings (loss) per common share:					
Basic					
Income (loss) before cumulative effect of change in accounting principles	(37.84)	2.40	5.38	4.03	3.83
Cumulative effect of change in accounting principles, net of tax			0.01		(0.06)
Net income (loss)	(37.84)	2.40	5.39	4.03	3.77
Diluted					
Income (loss) before cumulative effect of change in accounting principles	(37.84)	2.39	5.35	3.99	3.79
Cumulative effect of change in accounting principles, net of tax			0.01		(0.06)
Net income (loss)	(37.84)	2.39	5.36	3.99	3.73
Dividends declared per common share	0.42	0.77	0.65	0.63	0.29
Year-end balance sheet data:					
Total assets	860,418	1,048,361	979,410	853,048	801,007
Long-term debt*(i)*	177,485	162,935	135,316	100,314	86,653
Commercial paper and extendible commercial notes*(j)*	15,718	13,114	13,363	9,535	10,246
Total liabilities	807,708	952,560	877,542	766,545	721,135
Shareholders equity	$ 52,710	$ 95,801	$ 101,677	$ 86,317	$ 79,673

(a) Certain reclassifications have been made to prior period amounts to conform to the current period presentation.

(b) In 2008, 2007, 2006, 2005 and 2004, includes other-than-temporary impairment charges of $50.8 billion, $4.7 billion, $944 million, $598 million and $684 million, respectively. Also includes gains (losses) from hedging activities that did not qualify for hedge accounting treatment under FAS 133, including the related foreign exchange gains and losses. In 2008, 2007, 2006, 2005 and 2004, respectively, the effect was $(4.0) billion, $(1.44) billion, $(1.87) billion, $2.02 billion, and $385 million in revenues and $(4.0) billion, $(1.44) billion, $(1.87) billion, $2.02 billion and $671 million in operating income. These amounts result primarily from interest rate and foreign currency derivatives that are effective economic hedges of investments and borrowings.

(c) Includes an other-than-temporary impairment charge of $643 million on AIGFP s available for sale investment securities reported in other income in 2007.

(d) Includes current year catastrophe-related losses of $1.8 billion in 2008, $276 million in 2007, $3.28 billion in 2005 and $1.16 billion in 2004. There were no significant catastrophe-related losses in 2006.

(e) Reduced by fourth quarter charges of $1.8 billion and $850 million in 2005 and 2004, respectively, related to the annual review of General Insurance loss and loss adjustment reserves. In 2006, 2005 and 2004, changes in estimates for asbestos and environmental reserves were $198 million, $873 million and $850 million, respectively.

(f) In 2008, includes goodwill impairment charges of $3.2 billion.

(g) In 2008, includes $11.4 billion of interest expense on the Fed Facility, which was comprised of $9.3 billion of amortization on the prepaid commitment fee asset associated with the Fed Facility and $2.1 billion of accrued compounding interest.

(h) In 2008, includes a $20.6 billion valuation allowance to reduce AIG s deferred tax asset to an amount AIG believes is more likely than not to be realized, and a $5.5 billion deferred tax expense attributable to the potential sale of foreign businesses.

(i) Includes that portion of long-term debt maturing in less than one year. See Note 13 to the Consolidated Financial Statements.

(j) Includes borrowings of $6.8 billion, $6.6 billion and $1.7 billion for AIGFP, AIG Funding and ILFC, respectively, under the CPFF at December 31, 2008.

See Note 1(ff) 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***

Throughout this Management s Discussion and Analysis of Financial Condition and Results of Operations, AIG presents its operations in the way it believes will be most meaningful. Statutory underwriting profit (loss) is presented in accordance with accounting principles prescribed by insurance regulatory authorities because these are standard measures of performance used in the insurance industry and thus allow more meaningful comparisons with AIG s insurance competitors. AIG has also 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.

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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 which may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These projections and statements are not historical facts but instead represent only AIG s belief regarding future events, many of which, by their nature, are inherently uncertain and outside AIG s control. These projections and statements may address, among other things, the outcome of proposed transactions with the NY Fed and the United States Department of the Treasury, the number, size, terms, cost and timing of dispositions and their potential effect on AIG s businesses, financial condition, results of operations, cash flows and liquidity (and AIG at any time and from time to time may change its plans with respect to the sale of one or more businesses), AIG s exposures to subprime mortgages, monoline insurers and the residential and commercial real estate markets and AIG s strategy for growth, product development, market position, financial results and reserves. It is possible that AIG s actual results and financial condition will differ, possibly materially, from the anticipated results and financial condition indicated in these projections and statements. Factors that could cause AIG s actual results to differ, possibly materially, from those in the specific projections and statements include a failure to complete the proposed transactions with the NY Fed and the United States Department of the Treasury, developments in global credit markets and such other factors as discussed throughout this Management s Discussion and Analysis of Financial Condition and Results of Operations and in Item 1A. Risk Factors of this 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.

Overview

Operations

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

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

General Business Environment

The 2008 business environment was one of the most difficult in recent decades. In the U.S., real GDP shrank at annual rates of more than 4 percent in the second half of the year and almost 4 percent in the fourth quarter alone. At the beginning of 2008, the unemployment rate was 4.9 percent and by year-end was 7.2 percent.

The strong declines in the overall U.S. economy during the second half of 2008 occurred despite repeated reductions of interest rates by the Federal Reserve, the creation of numerous credit facilities for the banking system and the passage of a stimulus package.

Consideration of AIG s Ability to Continue as a Going Concern

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

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

The liquidity events in the second half of 2008, including transactions with the NY Fed and the United States Department of the Treasury;

AIG s liquidity-related actions and plans to stabilize its businesses and repay the Fed Facility;

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

The substantial resolution of the liquidity issues surrounding AIGFP s multi-sector super senior credit default swap portfolio and the U.S. securities lending program;

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

Anticipated transactions with the NY Fed and the United States Department of the Treasury;

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

The substantial risks to which AIG is subject.

Each of these items is discussed in more detail below.

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

It is possible that the actual outcome of one or more of management s plans could be materially different or that one or more of management s significant judgments or estimates about the potential effects of the risks and uncertainties could prove to be materially incorrect or that the principal transactions disclosed in Note 23 to the Consolidated Financial Statements (and as discussed below) are not consummated. If one or more of these possible outcomes is realized, AIG may need additional U.S. government support to meet its obligations as they come due.

Liquidity

Liquidity Events in the Second Half of 2008

In the second half of 2008, AIG experienced an unprecedented strain on liquidity. This strain led to a series of transactions with the NY Fed and the United States Department of the Treasury. The two principal causes of the liquidity strain were demands for the return of cash collateral under the U.S. securities lending program and collateral calls on AIGFP s super senior multi-sector CDO credit default swap portfolio.

Under AIG s securities lending program, cash collateral was received from borrowers in exchange for loans of securities owned by AIG s insurance company subsidiaries. The cash was invested by AIG in fixed income securities, primarily residential mortgage-backed securities (RMBS), to earn a spread. During September 2008, borrowers began in increasing numbers to request a return of their cash collateral. Because of the illiquidity in the market for RMBS, AIG was unable to sell RMBS at acceptable prices and was forced to find alternative sources of cash to meet these requests. As of the end of August, AIG s U.S. securities lending program had approximately $69 billion of borrowings outstanding. See Investments Securities Lending Activities for additional information about the securities lending program.

Additionally, throughout the second half of 2008, declines in the fair values of the super senior multi-sector CDO securities protected by AIGFP s credit default swap portfolio, together with ratings downgrades of the CDO securities, resulted in AIGFP being required to post significant additional collateral. As of the end of August 2008, AIG had posted approximately $19.7 billion of collateral under its super senior credit default swap portfolio. See Critical Accounting Estimates Fair Value Measurements of Certain Financial Assets and Liabilities for additional information about AIGFP s super senior multi-sector CDO credit default swap portfolio.

Both of these liquidity strains were significantly exacerbated by the downgrades of AIG s long-term debt ratings by S&P, Moody s and Fitch on September 15, 2008.

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Arrangements with the Federal Reserve Bank of New York and the United States Department of the Treasury

Fed Credit Agreement

Because of these immediate liquidity requirements, AIG s Board of Directors determined that the only viable alternative was to accept an arrangement offered by the NY Fed, and on September 16, 2008, approved borrowing from the NY Fed based on a term sheet that set forth the terms of the secured credit agreement and related equity participation. Over the next six days, AIG elected Edward M. Liddy Director, Chairman and CEO, replacing Robert Willumstad in those positions, negotiated a definitive credit agreement with the NY Fed and borrowed, on a secured basis, approximately $37 billion from the NY Fed, enabling AIG to meet its liquidity requirements before formally entering into a credit agreement with the NY Fed.

On September 22, 2008, AIG entered into the Fed Credit Agreement in the form of a two-year secured loan and the Pledge Agreement with the NY Fed. On November 9, 2008, AIG and the NY Fed agreed to amend the Fed Credit Agreement to reduce the total commitment under the Fed Facility to $60 billion following the issuance of the Series D Preferred Stock (described below), extend the term of the Fed Facility to 5 years and reduce the related interest and fees payable under the Fed Facility. See Note 13 to the Consolidated Financial Statements for information regarding the terms of and borrowings under the Fed Credit Agreement.

Series D Preferred Stock Issuance

On November 25, 2008, AIG entered into a Securities Purchase Agreement (the Series D Preferred Stock Purchase Agreement) with the United States Department of the Treasury pursuant to which, among other things, AIG issued and sold to the United States Department of the Treasury, as part of the Troubled Asset Relief Program (TARP) and the Systemically Significant Failing Institutions Program, $40 billion of Series D Preferred Stock, and a warrant to purchase 53,798,766 shares of common stock (the Warrant). The proceeds from the sale of the Series D Preferred Stock and the Warrant were used to repay borrowings under the Fed Facility. See Note 15 to the Consolidated Financial Statements for further information on the Series D Preferred Stock and the Warrant.

Termination of $62 billion of CDS

On November 25, 2008, AIG entered into a Master Investment and Credit Agreement (the ML III Agreement) with the NY Fed, Maiden Lane III LLC (ML III), and The Bank of New York Mellon, which established arrangements, through ML III, to fund the purchase of the multi-sector CDOs underlying or related to certain credit default swaps and other similar derivative instruments (CDS) written by AIG Financial Products Corp. in connection with the termination of such CDS transactions. Concurrently, AIG Financial Products Corp. s counterparties to such CDS transactions agreed to terminate those CDS transactions relating to the multi-sector CDOs purchased from them by ML III. Through December 31, 2008, ML III had purchased from counterparties a total of $62.1 billion in par amount of CDO securities, and the associated credit default swaps had been terminated. Approximately $12.2 billion notional amount of AIG Financial Products Corp. s CDS transactions referencing super senior multi-sector CDOs remained outstanding as of February 18, 2009. See Note 5 to the Consolidated Financial Statements for further information on the transactions with ML III.

Resolution of U.S. Securities Lending Program

On December 12, 2008, AIG, certain of AIG s wholly owned U.S. life insurance subsidiaries, and AIG Securities Lending Corp. (the AIG Agent), another AIG subsidiary, entered into an Asset Purchase Agreement (the ML II Agreement) with Maiden Lane II LLC (ML II), a Delaware limited liability company whose sole member is the NY Fed.

Pursuant to the ML II Agreement, the life insurance subsidiaries sold to ML II all of their undivided interests in a pool of $39.3 billion face amount of RMBS held by the AIG Agent as agent of the life insurance subsidiaries in connection with AIG s U.S. securities lending program. In exchange for the RMBS, the life insurance subsidiaries received an initial purchase price of approximately $19.8 billion plus the right to receive deferred contingent portions of the total purchase price of $1 billion plus participation in the residual, each of which is subordinated to the repayment of the NY Fed loan to ML II. These life insurance subsidiaries applied the net cash proceeds of sale of the RMBS toward the amounts due by such life insurance subsidiaries in terminating both the U.S. securities lending program and the interim agreement entered into with the NY Fed whereby the NY Fed borrowed securities from AIG subsidiaries in exchange for cash collateral. See Investments Securities Lending Activities and Note 5 to the Consolidated Financial Statements for further information on the transaction with ML II.

AIG Affiliates Participate in the NY Fed s Commercial Paper Funding Facility

On October 27, 2008, four affiliates of AIG (including ILFC) applied for participation in the CPFF. Currently, AIG Funding, Inc., an AIG subsidiary, and two of AIGFP s sponsored vehicles, Curzon Funding LLC and Nightingale Finance LLC may issue up to approximately $6.9 billion, $7.2 billion and $1.1 billion, respectively, of commercial paper under the CPFF. AIG Funding uses the proceeds to refinance AIG s outstanding commercial paper as it matures, meet other working capital needs and make prepayments under the Fed Facility while the two other programs use the proceeds to refinance maturing commercial paper. On January 21, 2009, S&P downgraded ILFC s short-term credit rating and, as a result, ILFC can no longer participate in the CPFF.

Series C Preferred Stock Issuance

On March 1, 2009, AIG entered into the Series C Preferred Stock Purchase Agreement with the Trust, pursuant to which AIG agreed to issue and sell 100,000 shares of Series C Preferred Stock to the Trust. AIG expects to issue the Series C Preferred Stock to the Trust in early March, 2009. The aggregate purchase price for the Series C Preferred Stock was $500,000, with an understanding that additional and independently sufficient consideration was also furnished in September 2008 by the NY Fed in the form of its $85 billion lending commitment under the Fed Credit Agreement.

The Series C Preferred Stock Purchase Agreement, among other things:

- provides the Trust with rights to require registration of the Series C Preferred Stock under the Securities Act of 1933 and for AIG to facilitate other dispositions;
- prohibits AIG from issuing capital stock without the approval of the Trust so long as the Trust owns 50 percent of the Series C Preferred Stock, subject to certain exceptions relating to existing obligations and employee benefit plans;
- requires AIG and its Board of Directors to work in good faith with the Trust to ensure satisfactory corporate governance arrangements;
- requires the following proposals to be presented to AIG s shareholders at AIG s 2009 Annual Meeting of Shareholders:
  - to amend AIG s Restated Certificate of Incorporation to permit AIG s Board of Directors to issue classes of preferred stock that are not of equal rank and cause the Series D Preferred Stock and any other series of preferred stock subsequently issued to the United States Department of the Treasury to rank senior to the Series C Preferred Stock and any other subsequently issued series of preferred stock that is not issued to the United States Department of the Treasury; and
  - to eliminate any restriction on the pledging of all or substantially all of AIG s properties or assets; and

requires the following proposals to be presented to AIG s shareholders at a special shareholders meeting or at a future annual shareholders meeting following notice from the Trust:

to amend AIG s Restated Certificate of Incorporation to decrease the par value of AIG s common stock, increase the authorized number of shares of common stock and, if these amendments are not approved;

to amend the terms of AIG s Restated Certificate of Incorporation to decrease the par value of AIG s serial preferred stock and increase the number of authorized shares of AIG s serial preferred stock, and amend the terms of the Series C Preferred Stock to increase the number of shares of Series C Preferred Stock so that each share of Series C Preferred Stock would be convertible into common stock on approximately a one-to-one basis.

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The Series C Preferred Stock is not redeemable by AIG and, upon the effectiveness of the required amendments to AIG s Restated Certificate of Incorporation, will be convertible into common stock. From issuance, the Series C Preferred Stock will, to the extent permitted by law, vote with the common stock as a single class and represent approximately 77.9 percent of the voting power of the common stock, treating the Series C Preferred Stock as converted. The Series C Preferred Stock will also participate in any dividends paid on the common stock, with approximately 77.9 percent of all dividends paid allocated to the Series C Preferred Stock, treating the Series C Preferred Stock as converted. Upon the liquidation, dissolution or winding up of AIG, the Series C Preferred Stock is entitled to a liquidation preference per share equal to the greater of (i) $5.00 and (ii) the amount that would be payable with respect to the shares of common stock issuable upon conversion of such share of Series C Preferred Stock. For additional information about the Series C Preferred Stock, see Note 15 to the Consolidated Financial Statements.

March 2009 Agreements in Principle

On March 2, 2009, AIG, the NY Fed and the United States Department of the Treasury announced agreements in principle to modify the terms of the Fed Credit Agreement and the Series D Preferred Stock and to provide a $30 billion equity capital commitment facility. The United States Government has issued the following statement referring to the agreements in principle and other transactions they expect to undertake with AIG intended to strengthen AIG s capital position, enhance its liquidity, reduce its borrowing costs and facilitate AIG s asset disposition program.

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

See Note 23 to the Consolidated Financial Statements.

Modification to Series D Preferred Stock

On March 2, 2009, AIG and the United States Department of the Treasury announced their agreement in principle to enter into a transaction pursuant to which the United States Department of the Treasury would modify the terms of the Series D Preferred Stock. The modification will be effected by an exchange of 100 percent of the outstanding shares of Series D Preferred Stock for newly issued perpetual serial preferred stock (Series E Preferred Stock), with a liquidation preference equal to the issuance-date liquidation preference of the Series D Preferred Stock surrendered plus accumulated but unpaid dividends thereon. The terms of the Series E Preferred Stock will be the same as for the Series D Preferred Stock except that the dividends will not be cumulative. The Series D Preferred Stock bore cumulative dividends.

The dividend rate on both the cumulative Series D Preferred Stock and the non-cumulative Series E Preferred Stock is 10 percent per annum. Concurrent with the exchange of the shares of Series D Preferred Stock for the Series E Preferred Stock, AIG will enter into a replacement capital covenant in favor of the holders of a series of AIG debt, pursuant to which AIG will agree that prior to the third anniversary of the issuance of the Series E Preferred Stock AIG will not repay, redeem or purchase, and no subsidiary of AIG will purchase, all or any part of the Series E Preferred Stock except with the proceeds obtained from the issuance by AIG or any subsidiary of AIG of certain capital securities. AIG will make a statement of intent substantially similar to the replacement capital covenant with respect to subsequent years. The Series D Preferred Stock was not subject to a replacement capital covenant.

Equity Capital Commitment Facility

On March 2, 2009, AIG and the United States Department of the Treasury announced its agreement in principle to provide AIG with a 5-year equity capital commitment facility of $30 billion. AIG may use the facility to sell to the United States Department of the Treasury fixed-rate, non-cumulative perpetual serial preferred stock

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(Series F Preferred Stock). The facility will be available to AIG so long as AIG is not the debtor in a pending case under Title 11, United States Code, and the Trust (or any successor entity established for the benefit of the United States Treasury) beneficially owns more than 50 percent of the aggregate voting power of AIG s voting securities at the time of such drawdown.

The terms of the Series F Preferred Stock will be substantially similar to the Series E Preferred Stock, except that the Series F Preferred Stock will not be subject to a replacement capital covenant or the statement of intent.

In connection with the equity capital commitment facility, the United States Department of the Treasury will also receive warrants exercisable for a number of shares of common stock of AIG equal to 1 percent of AIG s then outstanding common stock and, upon issuance of the warrants, the dividends payable on, and the voting power of, the Series C Preferred Stock will be reduced by the number of shares subject to the warrant.

Repayment of Fed Facility with Subsidiary Preferred Equity

On March 2, 2009, AIG and the NY Fed announced their intent to enter into a transaction pursuant to which AIG will transfer to the NY Fed preferred equity interests in newly-formed special purpose vehicles (SPVs). Each SPV will have (directly or indirectly) as its only asset 100 percent of the common stock of an AIG operating subsidiary (AIA in one case and ALICO in the other). AIG expects to own the common interests of each SPV and will initially have the right to appoint the entire board of directors of each SPV. In exchange for the preferred equity interests received by the NY Fed, there would be a concurrent substantial reduction in the outstanding balance and maximum available amount to be borrowed on the Fed Facility.

Securitizations

On March 2, 2009, AIG and the NY Fed announced their intent to enter into a transaction pursuant to which AIG will issue to the NY Fed senior certificates in one or more newly-formed SPVs backed by inforce blocks of life insurance policies in settlement of a portion of the outstanding balance of the Fed Facility. The amount of the Fed Facility reduction will be based on the proceeds received. The SPVs are expected to be consolidated by AIG.

Modification to Fed Facility

On March 2, 2009, AIG and the NY Fed announced their agreement in principle to amend the Fed Credit Agreement to remove the interest rate floor. Under the current terms, interest accrues on the outstanding borrowings under the Fed Facility at three-month LIBOR (no less than 3.5 percent) plus 3.0 percent per annum. The 3.5 percent LIBOR floor will be eliminated following the amendment. In addition, the Fed Facility will be amended to ensure that the total commitment will be at least $25 billion, even after giving effect to the repayment of the Fed Facility with subsidiary preferred equity and securitization transactions described above. These proceeds are expected to substantially reduce the outstanding borrowings under the Fed Facility from the amount outstanding as of December 31, 2008.

Liquidity Position

At December 31, 2008, AIG had outstanding borrowings under the Fed Facility of $36.8 billion, with a remaining borrowing capacity of $23.2 billion, and accrued compounding interest and fees totaled $3.6 billion.

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Borrowings outstanding and remaining available amount that can be borrowed under the Fed Facility were as follows:

	Inception through December 31, 2008	Inception through February 18, 2009(c)
	(In millions)	
Borrowings:		
Loans to AIGFP for collateral postings, GIA and other debt maturities	$ 46,997	$ 47,547
Capital contributions to insurance companies*(a)*	20,850	20,850
Repayment of obligations to securities lending program	3,160	3,160
Repayment of intercompany loans	1,528	1,528
Contributions to AIGCFG subsidiaries	1,672	1,686
Debt repayments	2,109	2,319
Funding of equity interest in ML III	5,000	5,000
Repayment from the proceeds of the issuance of Series D Preferred Stock and common stock warrant	(40,000)	(40,000)
Other*(a)(b)*	(4,516)	(6,890)
Net borrowings	36,800	35,200
Total Fed Facility	60,000	60,000
Remaining available amount	$ 23,200	$ 24,800
Net borrowings	$ 36,800	$ 35,200
Accrued compounding interest and fees	3,631	3,631
Total balance outstanding	$ 40,431	$ 38,831

(a) Includes securities lending activities.

(b) Includes repayments from funds received from the Fed Securities Lending Agreement and the CPFF.

(c) At February 25, 2009, $36 billion was outstanding under the Fed Facility.

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

Future Cash Requirements

The following table shows the maturing debt of AIG and its subsidiaries for each quarter of 2009:

	First Quarter 2009	Second Quarter 2009	Third Quarter 2009 (In millions)	Fourth Quarter 2009	Total
AIG	$ 418	$	$	$ 1,000	$ 1,418
AIG MIP		1,156			1,156
AIGFP	1,421	765	2,132	1,125	5,443
ILFC	917	1,097	1,151	2,986	6,151
AGF	835	931	3,209	1,661	6,636
Other subsidiaries	312	227	114	124	777
Total	$ 3,903	$ 4,176	$ 6,606	$ 6,896	$ 21,581

In addition, at February 18, 2009, AIG affiliates had issued $14 billion in commercial paper to the CPFF with the majority of maturities in April of 2009. If AIG s short-term ratings are downgraded, AIG Funding may lose access to the CPFF and would be required to find other sources to fund the maturing commercial paper.

AIG expects to meet these obligations primarily through borrowings from the Fed Facility and the cash flows, including from dispositions, of assets supporting these obligations. Approximately $3.1 billion of AIGFP s debt maturities through December 31, 2009 are fully collateralized with assets backing the corresponding liabilities. It is expected that AGF and ILFC will require support from AIG, in addition to their cash flows from operations and proceeds from asset sales and securitizations, to meet their 2009 obligations. See Note 13 to the Consolidated Financial Statements for additional information regarding the terms of the Fed Credit Agreement and the related Pledge Agreement.

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

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

Asset Disposition Plan

On October 3, 2008, AIG announced a restructuring plan under which AIG s Life Insurance & Retirement Services operations and certain other businesses would be divested in whole or in part. Since that time, AIG has sold certain businesses and assets and has entered into contracts to sell others. However, global market conditions have continued to deteriorate, posing risks to AIG s ability to divest assets at acceptable values. As announced on March 2, 2009 and as described in Note 23 to the Consolidated Financial Statements, AIG s restructuring plan has evolved in response to these market conditions. Specifically, AIG s current plans involve transactions between AIG and the NY Fed with respect to AIA and ALICO, as well as plans to retain the majority of AIG s U.S. property and casualty and foreign general insurance businesses.

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

In connection with AIG s asset disposition plan, through February 18, 2009, AIG had sold, or entered into contracts to sell the following operations:

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

On December 1, 2008, AIG entered into a contract to sell AIG Private Bank Ltd. to Aabar Investments PJSC.

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

On December 19, 2008, AIG entered into a contract to sell Deutsche Versicherungs-und Rückversicherungs-Aktiengesellschaft (Darag), a German general insurance subsidiary of AIG affiliate Württembergische und Badische Versicherungs-AG(WüBa) in Germany, to Augur.

On December 22, 2008, AIG entered into a contract to sell HSB Group, Inc., the parent company of HSB, to Munich Re Group.

On January 13, 2009, AIG entered into a contract to sell AIG Life Insurance Company of Canada to BMO Financial Group.

On January 23, 2009, AIG entered into a contract to sell AIG PhilAm Savings Bank, PhilAm Auto Financing and Leasing, and PFL Holdings to EastWest Banking Corporation.

On February 5, 2009, AIG entered into a contract to sell AIG Retail Bank Public Company Limited and AIG Card (Thailand) to Bank of Ayudhya.

Subject to satisfaction of certain closing conditions, including regulatory approvals, AIG expects those sales that are under contract to close during the first half of 2009. These operations had total assets and liabilities with carrying values of approximately $14.1 billion and $12.6 billion, respectively, at December 31, 2008. Aggregate proceeds from the sale of these businesses, including repayment of intercompany loan facilities, are expected to be $2.8 billion. These eight transactions are expected to generate $2.1 billion of net cash proceeds to repay outstanding borrowings on the Fed Facility, after taking insurance affiliate capital requirements into account.

AIG expects to divest its Institutional Asset Management businesses that manage third-party assets. These businesses offered for sale exclude those providing traditional fixed income and shorter duration asset and liability management for AIG s insurance company subsidiaries. The extraction of these asset management businesses will require the establishment of shared service arrangements between the remaining asset management businesses and those that are sold as well as the establishment of new asset management contracts, which will be determined in conjunction with the buyers of these businesses.

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

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

Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (FAS 144) requires that certain criteria be met in order for AIG to classify a business as held for sale. At December 31, 2008, the held for sale criteria in FAS 144 was not met for AIG s significant businesses included in its asset disposition plan.

Expense Reductions and Preservation of Cash and Capital

AIG developed a plan to review significant projects and eliminated, delayed, or curtailed those that are discretionary or non-essential to make available internal resources and to improve liquidity by reducing cash outflows to outside service providers. AIG also suspended the dividend on its common stock to preserve capital.

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Liquidity of Parent and Subsidiaries

AIG (Parent Company)

At February 18, 2009, AIG parent had the following sources of liquidity:

- $24.8 billion of available borrowings under the Fed Facility;
- $753 million of available commercial paper borrowings under the CPFF; and
- $1.1 billion of cash and short-term investments.

These sources of liquidity will be supplemented when the liquidity arrangements expected to be entered into among AIG, the NY Fed and the United States Department of the Treasury are implemented. As a result, AIG believes that it has sufficient liquidity at the parent level to meet its obligations through at least the next twelve months. However, no assurance can be given that AIG s cash needs will not exceed projected amounts. Additional collateral calls at AIGFP, a further downgrade of AIG s credit ratings or unexpected capital or liquidity needs of AIG s subsidiaries may result in significant additional cash needs. For a further discussion of this risk, see Item 1A. Risk Factors.

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

Traditionally AIG depended on dividends, distributions, and other payments from subsidiaries to fund payments on its obligations. In light of AIG s current financial situation, many of its regulated subsidiaries are restricted from making dividend payments, or advancing funds, to AIG (see Item 1A. Risk Factors). Primary uses of cash flow are for debt service and subsidiary funding. In 2008, AIG parent collected $2.7 billion in dividends and other payments from subsidiaries (primarily from insurance company subsidiaries), issued $12.8 billion of debt and retired $3.2 billion of debt, excluding MIP and Series AIGFP debt. Excluding MIP and Series AIGFP debt, AIG parent made interest payments totaling $1.5 billion, and made $27.2 billion in net capital contributions to subsidiaries. AIG paid $1.7 billion in dividends to shareholders in 2008, prior to the suspension of dividends in September 2008.

AIG parent funds a portion of its short-term working capital needs through commercial paper issued by AIG Funding. Since October 2008, all commercial paper issuance for AIG Funding has been through the CPFF program. As of December 31, 2008, AIG Funding had $6.9 billion of commercial paper outstanding with an average maturity of 32 days, of which $6.6 billion was issued through the CPFF.

AIG s liquidity could also be further impaired by unforeseen significant outflows of cash. This situation may arise due to circumstances that AIG may be unable to control, such as more extensive general market disruption or an operational problem that affects third parties or AIG. Regulatory and other legal restrictions would likely limit AIG s ability to transfer funds freely, either to or from its subsidiaries. For a further discussion of the regulatory environment in which AIG subsidiaries operate and other issues affecting AIG s liquidity, see Item 1A. Risk Factors.

General Insurance

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

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General Insurance operating cash flow is derived from underwriting and investment activities. Cash flow from underwriting operations includes collections of periodic premiums and paid loss recoveries, less reinsurance premiums, losses, and acquisition and operating expenses. Generally, there is a time lag from when premiums are collected and losses and benefits are paid. Investment cash flow is primarily derived from interest and dividends received, and includes investment maturities and repayments.

With respect to General Insurance operations, if paid losses accelerated beyond AIG s ability to fund such losses from current operating cash flows, AIG might need to liquidate a portion of its General Insurance investment portfolio and/or attempt to arrange for financing. A liquidity strain could result from the occurrence of one or several significant catastrophic events in a relatively short period of time. Additional strain on liquidity could occur if the investments liquidated to fund such paid losses were sold in a depressed market place. Further liquidity strains could also arise if reinsurance recoverable on such paid losses became uncollectible or collateral supporting such reinsurance recoverable significantly decreased in value.

At December 31, 2008, General Insurance had liquidity in the form of cash and short-term investments of $11.7 billion. In the event additional liquidity is required, management believes it can provide such liquidity through sale of a portion of its substantial holdings in government and corporate bonds as well as equity securities. Government and corporate bonds represented 97.6 percent of total fixed income investments at December 31, 2008. Given the size and liquidity profile of AIG s General Insurance investment portfolios, AIG believes that deviations from its projected claim experience do not constitute a significant liquidity risk. AIG s asset/liability management process takes into account the expected maturity of investments and the specific nature and risk profile of liabilities. Historically, there has been no significant variation between the expected maturities of AIG s General Insurance investments and the payment of claims.

AIG has arranged for letters of credit that totaled $1.6 billion and funded trusts totaling $2.9 billion at December 31, 2008, to allow certain AIG Property and Casualty Group subsidiaries to obtain admitted surplus credit for reinsurance provided by non-admitted carriers. Substantially all the letters of credit may be cancelled on December 31, 2010. The inability of AIG to renew or replace these letters of credit or otherwise obtain equivalent financial support would result in a reduction of the statutory surplus of these property and casualty companies. AIG Property Casualty Group maintains liquidity in its investment portfolio through holdings of $6.2 billion of municipal securities which have been refunded and are escrowed to the call or to maturity. The maturities of these holdings are all less than ten years, and the bonds are secured by the United States Department of the Treasury or Government Agency securities held in escrow by trustees. These municipal holdings have substantial unrealized gains and demonstrated liquidity even during the market dislocations experienced during the fourth quarter of 2008.

Life Insurance & Retirement Services

Life Insurance & Retirement Services operating cash flow is derived from underwriting and investment activities. Cash flow from underwriting operations includes collections of periodic premiums and policyholders contract deposits, and paid loss recoveries, less reinsurance premiums, losses, benefits, surrenders, and acquisition and operating expenses. Generally, there is a time lag from when premiums are collected and losses and benefits are paid. Investment cash flow is primarily derived from interest and dividends received, and includes investment maturities and repayments. Contributions from AIG parent also represent a liquidity source.

If a substantial portion of the Life Insurance & Retirement Services operations bond portfolio diminished significantly in value and/or defaulted, AIG might need to provide capital or liquidity support to these operations. For a discussion of AIG s potential inability to support its subsidiaries, see Item 1A. Risk Factors Liquidity. A significant increase in policy surrenders and withdrawals, which could be triggered by a variety of factors, including AIG-specific concerns, could result in a substantial liquidity strain. Other potential events causing a liquidity strain could include economic collapse of a nation or region in which Life Insurance & Retirement Services operations exist, nationalization, catastrophic terrorist acts, or other economic or political upheaval.

At December 31, 2008, Life Insurance & Retirement Services had liquidity in the form of cash and short-term investments of $32.3 billion. In the event additional liquidity is required, management believes it can provide such liquidity through sale of a portion of its substantial holdings in government and corporate bonds as well as equity securities. Government and corporate bonds represented 84.8 percent of total fixed income investments at December 31, 2008. Given the size and liquidity profile of AIG s Life Insurance & Retirement Services investment portfolios, AIG believes that deviations from its projected claim experience do not constitute a significant liquidity risk. AIG s asset/liability management process takes into account the expected maturity of investments and expected benefit payments and policy surrenders as well as the specific nature and risk profile of these liabilities. The Life Insurance & Retirement Services subsidiaries have been able to meet liquidity needs, even during the period of higher surrenders which was experienced from mid-September through year-end 2008, and expect to be able to do so in the foreseeable future.

Foreign Life Insurance Companies

AIG s Foreign Life Insurance companies (including ALICO) have had significant capital needs following publicity of AIG parent s liquidity issues and related credit ratings downgrades and reflecting the decline in the equity markets. AIG contributed $4.4 billion to the Foreign Life Insurance companies during 2008 ($4.0 billion of which was contributed using borrowings under the Fed Facility). In Taiwan, AIG contributed approximately $1.8 billion to Nan Shan in 2008 as a result of the continued declines in the Taiwan equity market and foreign currency movements. AIG made capital contributions of $2.6 billion to support foreign life operations in Hong Kong and Japan, principally due to the steep decline in AIG s common stock price.

AIG believes that its Foreign Life Insurance subsidiaries have adequate capital to support their business plans through 2009; however, to the extent the investment portfolios of the Foreign Life Insurance companies continue to be adversely affected by market conditions, AIG may need to make additional capital contributions to these companies. For a discussion of AIG s potential inability to support its subsidiaries, see Item 1A. Risk Factors Liquidity.

Domestic Life Insurance and Domestic Retirement Services Companies

AIG s Domestic Life Insurance and Domestic Retirement Services companies have two primary liquidity needs: the funding of surrenders, and obtaining capital to offset statutory other-than-temporary impairment charges. At the current rate of surrenders, AIG believes that its Domestic Life Insurance and Domestic Retirement Services companies will have sufficient resources to meet these obligations. A substantial increase in surrender activity could, however, place stress on the liquidity of these companies and require asset sales or contributions from AIG.

During the year ended December 31, 2008 and through February 27, 2009, AIG contributed capital totaling $22.7 billion ($18.0 billion of which was contributed using borrowings under the Fed Facility) to certain of its Domestic Life Insurance and Domestic Retirement Services subsidiaries to replace a portion of the capital lost as a result of net realized capital losses (primarily resulting from other-than-temporary impairment charges). Further capital contributions may be required to the extent additional statutory net realized capital losses are incurred. For a discussion of AIG s potential inability to support its subsidiaries, see Item 1A. Risk Factors Liquidity.

Financial Services

AIG s major Financial Services operating subsidiaries consist of ILFC, AIGFP, AGF and AIGCFG. Traditional sources of funds considered in meeting the liquidity needs of these operations are generally no longer available. These sources included GIAs issuance of long- and short-term debt, issuance of commercial paper, bank loans and bank credit facilities. However, AIGCFG has been able to retain a significant portion of customer deposits, providing a measure of liquidity.

ILFC

ILFC s traditional source of liquidity had been collections of lease payments and borrowing in the public debt markets to fund aircraft purchases and to satisfy maturing debt. Additional liquidity is provided by the proceeds of aircraft sales.

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In September 2008, ILFC was unable to borrow in the public debt markets, and therefore, ILFC borrowed the full $6.5 billion amount available under its credit facilities. ILFC was also accepted into the CPFF and had borrowed approximately $1.7 billion under the CPFF as of December 31, 2008. On January 21, 2009, however, S&P downgraded ILFC s short-term credit rating and, as a result, ILFC lost access to the CPFF. The $1.7 billion ILFC had borrowed under the CPFF was due and paid on January 28, 2009. ILFC is currently seeking secured financing. ILFC has the capacity under its present facilities and indentures, to enter into secured financings in excess of $5.0 billion. If ILFC continues to be limited in its ability to use this capacity, AIG expects that these borrowings and cash flows from operations, which may include aircraft sales, will be inadequate to permit ILFC to meet its obligations for 2009. Therefore, AIG will need to provide support through additional asset sales or funding for the remaining amounts.

As a result of Moody s downgrade of ILFC s long-term debt rating, ILFC received notice under the provisions of the Export Credit Facilities to segregate security deposits and maintenance reserves related to aircraft funded under the facilities into separate accounts. ILFC had 90 days from the date of the notice to comply and, subsequent to December 31, 2008, ILFC segregated approximately $260 million of deposits and maintenance reserves. The amount of funds required to be segregated under the facility agreements fluctuates with the changes in the related deposits, maintenance reserves, and debt maturities. Further rating downgrades would impose additional restrictions under these facilities including the requirement to segregate rental payments and would require prior consent to withdraw funds from the segregated account.

AIGFP

AIGFP had historically funded its operations through the issuance of notes and bonds, GIA borrowings and other structured financing transactions. AIGFP also obtained funding through repurchase agreements.

In the last half of 2008, AIGFP s access to its traditional sources of liquidity were significantly reduced and it relied on AIG Parent to meet most of its liquidity needs. AIGFP s asset backed commercial paper conduit, Curzon Funding LLC, was accepted into the CPFF with a total borrowing limit of $7.2 billion, and had approximately $6.8 billion outstanding at February 18, 2009. Separately, a structured investment vehicle sponsored, but not consolidated, by AIGFP, Nightingale Finance LLC, was also accepted into the CPFF with a borrowing limit of $1.1 billion. As of February 18, 2009, this vehicle had approximately $1.1 billion outstanding under the CPFF.

AGF

AGF s traditional source of liquidity has been collections of customer receivables and borrowing in the public markets.

In September 2008, AGF was unable to borrow in the public debt markets and drew down $4.6 billion, the full amount available, under its primary credit facilities. AGF anticipates that its primary source of funds to support its operations and repay its obligations will be customer receivable collections. In order to improve cash flow, AGF will limit its lending activities and manage its expenses. In addition, AGF is pursuing sales of certain of its finance receivables and seeking securitization financing. AIG expects that AGF s existing sources of funds will be inadequate to meet its debt and other obligations for 2009. Therefore, AIG will need to provide support through additional asset sales or funding for the remaining amounts.

AIGCFG

AIGCFG experienced significant deposit withdrawals in Hong Kong during September 2008. AIGCFG subsidiaries borrowed $1.6 billion from AIG in September and October of 2008 to meet these withdrawals and other cash needs. No further material funding was required during the remainder of the fourth quarter of 2008.

Since November of 2008, AIGCFG subsidiaries have been able to retain significant deposit balances as a result of the lowered perceived risk, as well as depository insurance support provided by various regulatory authorities in countries in which AIGCFG units operate.

AIG believes that the funding needs of AIGCFG have stabilized, but it is possible that renewed customer and counterparty concerns could substantially increase AIGCFG s liquidity needs in 2009. Through February 18, 2009, AIGCFG had entered into contracts to sell certain of its operations in Taiwan, Thailand and the Philippines.

Asset Management

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

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

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Debt

Total debt was as follows:

	At December 31, 2008	2007
	(In millions)	
Debt issued by AIG:		
Fed Facility (secured)	**$ 40,431**	$
Notes and bonds payable	**11,756**	14,588
Junior subordinated debt	**11,685**	5,809
Junior subordinated debt attributable to equity units	**5,880**	
Loans and mortgages payable	**416**	729
MIP matched notes and bonds payable	**14,446**	14,267
AIGFP matched notes and bonds payable	**4,660**	874
Total AIG debt	**89,274**	36,267
Debt guaranteed by AIG:		
AIGFP*(a)*		
Commercial paper*(b)*	**6,802**	
GIAs	**13,860**	19,908
Notes and bonds payable	**5,250**	36,676
Loans and mortgages payable	**2,175**	1,384
Hybrid financial instrument liabilities*(c)*	**2,113**	7,479
Total AIGFP debt	**30,200**	65,447
AIG Funding commercial paper*(b)*	**6,856**	4,222
AIGLH notes and bonds payable	**798**	797
Liabilities connected to trust preferred stock	**1,415**	1,435
Total debt issued or guaranteed by AIG	**128,543**	108,168
Debt not guaranteed by AIG:		
ILFC		
Commercial paper*(b)*	**1,748**	4,483
Junior subordinated debt	**999**	999
Notes and bonds payable*(d)*	**30,047**	25,737
Total ILFC debt	**32,794**	31,219

AGF		
Commercial paper and extendible commercial notes	**188**	3,801
Junior subordinated debt	**349**	349
Notes and bonds payable	**23,089**	22,369
Total AGF debt	**23,626**	26,519
AIGCFG		
Commercial paper	**124**	287
Loans and mortgages payable	**1,596**	1,839
Total AIGCFG debt	**1,720**	2,126
Other subsidiaries	**670**	775
Debt of consolidated investments held through:		

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	At December 31, 2008	At December 31, 2007
	(In millions)	
A.I. Credit*(e)*		321
AIG Investments	**1,300**	1,636
AIG Global Real Estate	**4,545**	5,096
AIG SunAmerica	**5**	186
ALICO		3
Total debt of consolidated investments	**5,850**	7,242
Total debt not guaranteed by AIG	**64,660**	67,881
Consolidated:		
Total commercial paper and extendible commercial notes	**613**	13,114
Federal Reserve Bank of New York commercial paper funding facility	**15,105**	
Total long-term debt	**177,485**	162,935
Total debt	**$ 193,203**	$ 176,049

(a) In 2008, AIGFP borrowings are carried at fair value.

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

(c) Represents structured notes issued by AIGFP that are accounted at fair value.

(d) Includes borrowings under Export Credit Facility of $2.4 billion and $2.5 billion at December 31, 2008 and 2007, respectively.

(e) Represents commercial paper issued by a variable interest entity secured by receivables of A.I. Credit.

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Long-Term Debt

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

	for the year ended December 31, 2008					
	Balance at December 31, 2007	**Issuances**	**Maturities and Repayments**	**Effect of Foreign Exchange**	**Other Non-Cash Changes(b)**	**Balance at December 31, 2008**
	(In millions)					
AIG						
Fed Facility	$	$ 96,650	$ (59,850)	$	$ 3,631	**$ 40,431**
Notes and bonds payable	14,588		(2,700)	(1)	(131)	**11,756**
Junior subordinated debt	5,809	6,953		(1,078)	1	**11,685**
Junior subordinated debt attributable to equity units		5,880				**5,880**
Loans and mortgages payable	729	457	(762)	8	(16)	**416**
MIP matched notes and bonds payable	14,267		(194)	(38)	411	**14,446**
AIGFP matched notes and bonds payable	874	3,464	(198)		520	**4,660**
AIGFP*(a)*						
GIAs	19,908	5,070	(16,576)		5,458	**13,860**
Notes and bonds payable and hybrid financial instrument liabilities	44,155	63,803	(99,531)		(1,064)	**7,363**
Loans and mortgages payable	1,384	9,254	(8,512)		49	**2,175**
AIGLH notes and bonds payable	797				1	**798**
Liabilities connected to trust preferred stock	1,435		(19)		(1)	**1,415**
ILFC notes and bonds payable	25,737	9,389	(4,575)	(507)	3	**30,047**
ILFC junior subordinated debt	999					**999**
AGF notes and bonds payable	22,369	5,844	(4,659)	(427)	(38)	**23,089**
AGF junior subordinated debt	349					**349**
AIGCFG loans and mortgages payable	1,839	2,278	(2,431)	(214)	124	**1,596**

Other subsidiaries	775	23	(165)	26	11	**670**
Total	$ 156,014	$ 209,065	$ (200,172)	$ (2,231)	$ 8,959	**$ 171,635**

(a) In 2008, AIGFP borrowings are carried at fair value.

(b) Includes the change in fair value and cumulative effect of the adoption of FAS 159, The Fair Value Option for Financial Assets and Financial Liabilities (FAS 159). Also includes commitment fee and accrued compounding interest of $3.63 billion on the Fed Facility.

AIG (Parent Company)

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

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On August 18, 2008, AIG sold $3.25 billion principal amount of senior unsecured notes in a Rule 144A/Regulation S offering which bear interest at a per annum rate of 8.25 percent and mature in 2018. The proceeds from the sale of these notes were used by AIGFP for its general corporate purposes, and the notes are included within AIGFP matched notes and bonds payable in the preceding tables. AIG has agreed to use commercially reasonable efforts to consummate an exchange offer for the notes pursuant to an effective registration statement within 360 days of the date on which the notes were issued.

As of December 31, 2008, approximately $7.5 billion principal amount of senior notes were outstanding under AIG s medium-term note program, of which $3.2 billion was used for AIG s general corporate purposes, $893 million was used by AIGFP (included within AIGFP matched notes bonds and payable in the preceding tables) and $3.4 billion was used to fund the MIP. The maturity dates of these notes range from 2009 to 2052. To the extent considered appropriate, AIG may enter into swap transactions to manage its effective borrowing rates with respect to these notes.

As of December 31, 2008, the equivalent of $12.0 billion of notes were outstanding under AIG s Euro medium-term note program, of which $9.7 billion were used to fund the MIP and the remainder was used for AIG s general corporate purposes. The aggregate amount outstanding includes a $588 million loss resulting from foreign exchange translation into U.S. dollars, of which $0.1 million gain relates to notes issued by AIG for general corporate purposes and $588 million loss relates to notes issued to fund the MIP. AIG has economically hedged the currency exposure arising from its foreign currency denominated notes.

In May 2008, AIG raised a total of approximately $20 billion through the sale of (i) 196,710,525 shares of AIG common stock in a public offering at a price per share of $38; (ii) 78.4 million Equity Units in a public offering at a price per unit of $75; and (iii) $6.9 billion in unregistered offerings of junior subordinated debentures in three series. The Equity Units and junior subordinated debentures receive hybrid equity treatment from the major rating agencies under their current policies but are recorded as long-term debt on the consolidated balance sheet. The Equity Units consist of an ownership interest in AIG junior subordinated debentures and a stock purchase contract obligating the holder of an equity unit to purchase, and obligating AIG to sell, a variable number of shares of AIG common stock on three dates in 2011 (a minimum of 128,944,480 shares and a maximum of 154,738,080 shares, subject to anti-dilution adjustments).

During 2007 and 2008, AIG issued an aggregate of $12.5 billion of junior subordinated debentures in U.S. dollars, British Pounds and Euros in eight series. In connection with each series of junior subordinated debentures, AIG entered into a Replacement Capital Covenant (RCC) for the benefit of the holders of AIG s 6.25 percent senior notes due 2036. The RCCs provide that AIG will not repay, redeem, or purchase the applicable series of junior subordinated debentures on or before a specified date, unless AIG has received qualifying proceeds from the sale of the replacement capital securities.

In October 2007, AIG borrowed a total of $500 million on an unsecured basis pursuant to a loan agreement with a third-party bank. The entire amount of the loan was repaid on September 30, 2008.

AIGFP

Approximately $3.1 billion of AIGFP s debt maturities through December 31, 2009 are fully collateralized with assets backing the corresponding liabilities. However, mismatches in the timing of cash inflows on the assets and outflows with respect to the liabilities may require assets to be sold to satisfy maturing liabilities. Depending on market conditions and AIGFP s ability to sell assets at that time, proceeds from sales may not be sufficient to satisfy the full amount due on maturing liabilities. Any shortfalls would need to be funded by AIG parent.

ILFC

ILFC has a $4.3 billion Export Credit Facility for use in connection with the purchase of approximately 75 aircraft delivered through 2001. This facility was guaranteed by various European Export Credit Agencies. The interest rate varies from 5.75 percent to 5.86 percent on these amortizing ten-year borrowings depending on the delivery date of the aircraft. At December 31, 2008, ILFC had $365 million outstanding under this facility. The debt is collateralized by a pledge of the shares of a subsidiary of ILFC, which holds title to the aircraft financed under the facility.

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ILFC has a similarly structured Export Credit Facility for up to a maximum of $3.6 billion for Airbus aircraft to be delivered through May 31, 2009. The facility becomes available as the various European Export Credit Agencies provide their guarantees for aircraft based on a forward-looking calendar, and the interest rate is determined through a bid process. The interest rates are either LIBOR based with spreads ranging from (0.04) percent to 0.90 percent or at fixed rates ranging from 4.2 percent to 4.7 percent. At December 31, 2008, ILFC had $2.1 billion outstanding under this facility. At December 31, 2008, the interest rate of the loans outstanding ranged from 2.51 percent to 4.71 percent. The debt is collateralized by a pledge of shares of a subsidiary of ILFC, which holds title to the aircraft financed under the facility. Borrowings with respect to these facilities are included in ILFC s notes and bonds payable in the preceding table of borrowings.

At December 31, 2008, the total funded amount of ILFC s bank financings was $7.6 billion. The fundings mature through February 2012. The interest rates are LIBOR-based, with spreads ranging from 0.30 percent to 1.625 percent. At December 31, 2008, the interest rates ranged from 2.15 percent to 4.36 percent. AIG does not guarantee any of the debt obligations of ILFC.

AGF

As of December 31, 2008, notes and bonds aggregating $23.1 billion were outstanding with maturity dates ranging from 2009 to 2031 at interest rates ranging from 0.23 percent to 9 percent. To the extent considered appropriate, AGF may enter into swap transactions to manage its effective borrowing rates with respect to these notes and bonds.

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

Revolving Credit Facilities

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

Both ILFC and AGF have drawn the full amount available under their revolving credit facilities. AIG s syndicated facilities contain a covenant requiring AIG to maintain total shareholders equity (calculated on a consolidated basis consistent with GAAP) of at least $50 billion at all times. If AIG fails to maintain this level of total shareholders equity at any time, it will lose access to those facilities. Additionally, if an event of default occurs under those facilities, including AIG failing to maintain $50 billion of total shareholders equity at any time, which causes the banks to terminate either of those facilities, then AIG may be required to collateralize approximately

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$2.7 billion of letters of credit that AIG has obtained for the benefit of its insurance subsidiaries so that these subsidiaries may obtain statutory recognition of their intercompany reinsurance transactions.

At December 31, 2008 *(in millions)* **Facility**	**Size**	**Borrower(s)**	**Available Amount (In millions)**	**Expiration**	**One-Year Term-Out Option**
AIG:					
364-Day Syndicated Facility*(a)*	$ 2,125	AIG/AIG Funding*(b)*	$ 2,125	July 2009	Yes
5-Year Syndicated Facility*(a)*	1,625	AIG/AIG Funding*(b)*	1,625	July 2011	No
Total AIG	$ 3,750		$ 3,750		
ILFC:					
5-Year Syndicated Facility	$ 2,500	ILFC	$	October 2011	No
5-Year Syndicated Facility	2,000	ILFC		October 2010	No
5-Year Syndicated Facility	2,000	ILFC		October 2009	No
Total ILFC	$ 6,500		$		
AGF:					
364-Day Syndicated Facility	$ 2,450	American General Finance Corporation	$	July 2009	Yes
		American General Finance, Inc.*(c)*			
5-Year Syndicated Facility	2,125	American General Finance Corporation		July 2010	No
Total AGF	$ 4,575		$		

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

(b) Guaranteed by AIG. In September 2008, AIG Capital Corporation was removed as a borrower on the syndicated facilities.

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

Credit Ratings

The cost and availability of unsecured financing for AIG and its subsidiaries are generally dependent on their short-and long-term debt ratings. The following table presents the credit ratings of AIG and certain of its subsidiaries as of February 18, 2009. In parentheses, following the initial occurrence in the table of each rating, is an indication of that rating s relative rank within the agency s rating categories. That ranking refers only to the

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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**	**Fitch**	**Moody s(a)**	**S&P(b)**	**Fitch(c)**
AIG	P-1 (1st of 3)*(g)*	A-1 (1st of 8)*(e)*	F1 (1st of 5)	A3 (3rd of 9)*(g)*	A- (3rd of 8)*(e)*	A (3rd of 9)
AIG Financial Products Corp.*(d)*	P-1*(g)*	A-1*(e)*		A3*(g)*	A-*(e)*	
AIG Funding*(d)*	P-1*(g)*	A-1*(e)*	F1			
ILFC	P-2 (2nd of 3)*(h)*	A-2 (2nd of 8)*(f)*	F1*(j)*	Baa1 (4th of 9)*(h)*	BBB+ (4th of 8)*(f)*	A*(j)*
American General Finance Corporation	P-2*(i)*	B (4th of 8)	F1*(j)*	Baa1*(g)*	BB+ (5th of 8)*(i)*	BBB (4th of 9)*(j)*
American General Finance, Inc.	P-2*(g)*	A-3 (3rd of 8)	F1*(j)*			BBB*(j)*

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

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

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

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

(e) Credit Watch Negative.

(f) Credit Watch Developing.

(g) Under Review for Possible Downgrade.

(h) Under Review with Direction Uncertain.

(i) Negative Outlook.

(j) Rating Watch Evolving.

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

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

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

The actual amount of collateral that AIGFP would be required to post to counterparties in the event of such downgrades, or the aggregate amount of payments that AIG could be required to make, depends on market conditions, the fair value of outstanding affected transactions and other factors prevailing at the time of the downgrade. For the impact of a downgrade in AIG s credit ratings, see Item 1A. Risk Factors Credit Ratings.

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Contractual Obligations

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

			Payments due by Period		
At December 31, 2008	**Total Payments**	**Less Than One Year**	**1-3 Years**	**3+-5 Years**	**More Than Five Years**
			(In millions)		
Borrowings*(a)*	$ 131,204	$ 20,417	$ 33,574	$ 18,607	$ 58,606
Fed Facility	40,431			40,431	
Interest payments on borrowings	81,860	5,361	9,281	22,832	44,386
Loss reserves*(b)*	89,258	24,546	27,224	12,942	24,546
Insurance and investment contract liabilities*(c)*	620,440	32,059	41,703	38,103	508,575
GIC liabilities*(d)*	18,020	6,175	2,472	3,406	5,967
Aircraft purchase commitments	16,677	3,028	448	2,917	10,284
Operating leases	4,258	800	1,094	699	1,665
Other long-term obligations	562	228	308	12	14
Total*(e)(f)*	$ 1,002,710	$ 92,614	$ 116,104	$ 139,949	$ 654,043

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

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

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

(d) *Represents guaranteed maturities under GICs.*

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

(f) *The majority of AIGFP s credit default swaps require AIGFP to provide credit protection on a designated portfolio of loans or debt securities. At December 31, 2008, the fair value derivative liability was $5.9 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.*

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Off Balance Sheet Arrangements and Commercial Commitments

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

		Amount of Commitment Expiration			
at December 31, 2008	Total Amounts Committed	Less Than One Year	1-3 Years	3+-5 Years	Over Five Years
			(In millions)		
Guarantees:					
Liquidity facilities*(a)*	$ 912	$	$	$ 799	$ 113
Standby letters of credit	1,541	1,340	41	25	135
Construction guarantees*(b)*	155				155
Guarantees of indebtedness	776	77	134	307	258
All other guarantees	1,857	69	48	28	1,712
Commitments:					
Investment commitments*(c)*	9,185	2,575	3,742	1,951	917
Commitments to extend credit	629	132	437	54	6
Letters of credit	316	306	10		
Other commercial commitments*(d)*	1,034	3		160	871
Total	$ 16,405	$ 4,502	$ 4,412	$ 3,324	$ 4,167

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

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

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

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

Arrangements with Variable Interest Entities

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

Under FIN 46(R), AIG consolidates a VIE when it is the primary beneficiary of the entity. The primary beneficiary is the party that either (i) absorbs a majority of the VIE s expected losses; (ii) receives a majority of the VIE s expected residual returns; or (iii) both. For a further discussion of AIG s involvement with VIEs, see Note 9 of Notes to the Consolidated Financial Statements.

Outlook

General disruptions in the global equity and credit markets and the liquidity issues at AIG have negatively affected the results of each of AIG s operating segments as discussed below.

General Insurance

Commercial Insurance has been generally successful in retaining clients, although some have reduced the number of lines or limits of coverage due in part to concerns over AIG s financial strength. In addition, the number of new business opportunities has declined since September of 2008. Senior management has spent considerable time since September 2008 meeting with policyholders and brokers explaining the financial strength of Commercial Insurance and the protections afforded policyholders by insurance regulations. However, net premiums written declined 22 percent in the fourth quarter of 2008 compared to the same period of 2007. The retention of existing business continues to be moderately lower than in the comparable prior year period, however retention levels have improved in the early part of 2009 compared to the fourth quarter of 2008.

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

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

Foreign General Insurance has been successful in retaining business in its property, casualty and consumer lines. During the critical first quarter 2009 renewal period with more than 30 percent of the annual production expected, business retention was strong in Foreign General Insurance s top three regions, U.K./Ireland, Europe and the Far East, with the significant majority of clients maintaining their relationship with AIG. However, there was some expected de-risking among customers to further diversify their portfolios as well as a slight reduction in new business production. Because the three regions represent the majority of business, recent business activity is comparable to 2008. Overall, gross premiums to date for 2009 were essentially flat from the comparable period of 2008 as measured in original currency.

Life Insurance & Retirement Services

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

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

Financial Services

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

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As a consequence of its wind-down strategy, AIGFP is entering into new derivative transactions only to hedge its current portfolio, reduce risk and hedge the currency, interest rate and other market risks associated with its affiliated businesses. AIGFP has already reduced the size of certain portions of its portfolio, including effecting a substantial reduction in credit derivative transactions in respect of multi-sector CDOs (see Termination of $62 billion of CDS below), a sale of its commodity index business, termination of its activities as a foreign exchange prime broker, sale and other disposition of the large majority of its energy/infrastructure investment portfolio. Due to the long-term duration of many of AIGFP s derivative contracts and to the complexity of AIGFP s portfolio, AIG expects that an orderly wind-down will take a substantial period of time. The cost of executing the wind-down will depend on many factors, many of which are not within AIGFP s control, including market conditions, AIGFP s access to markets via market counterparties, the availability of liquidity and the potential implications of further rating downgrades.

AIGCFG experienced significant deposit withdrawals in Hong Kong during September 2008. The inability of AIGCFG to access its traditional sources of funding resulted in AIG lending $1.6 billion to subsidiaries of AIGCFG in September and October of 2008. Additional funding during the remainder of the fourth quarter of 2008 was not material. AIG has entered into contracts to sell certain finance operations in Taiwan, Thailand and the Philippines.

Asset Management

Distressed global markets have reduced the value of assets under management, translating to lower base management fees and reduced carried interest revenues. Tight credit markets have put pressure on the commercial and residential real estate markets, which has caused values in certain geographic locations to fall, resulting in impairment charges on real estate held for investment purposes.

Liquidity issues at AIG parent and lower asset performance as a result of challenging market conditions have contributed to the loss of institutional and retail clients, as well as higher redemptions from some of AIG subsidiaries managed hedge and mutual funds, have prevented AIG subsidiaries from launching new funds and will continue to adversely affect Asset Management results.

Within the Spread-Based Investment business, distressed markets have resulted in significant loss of invested asset value, and AIG expects such losses to continue through mid 2009. In addition, AIG does not expect to issue any additional debt to fund the Matched Investment Program for the foreseeable future.

As AIG implements the proposed transactions with the NY Fed and United States Department of the Treasury described above and in Note 23 to the Consolidated Financial Statements, AIG expects to incur significant additional restructuring related charges, such as accelerated amortization of the pre-paid commitment asset and, potentially, the write-off of intangible assets. Further, if AIG continues to incur losses in its businesses, AIG may need to write off material amounts of goodwill.

Results of Operations

Consolidated Results

Fourth quarter 2008 net loss

Due to continued severe market deterioration and charges related to ongoing restructuring activities, AIG incurred a substantial net loss of $61.7 billion in the fourth quarter of 2008. This loss resulted primarily from the following:

net realized capital losses arising from other-than-temporary impairment charges of $18.6 billion ($13.0 billion after tax) reflecting severity losses primarily related to CMBS, other structured securities and securities of financial institutions due to rapid and severe market valuation declines where the impairment period was not deemed temporary; losses related to the change in AIG s intent and ability to hold to recovery certain securities; and issuer-specific credit events, including charges associated with investments in financial institutions;

net realized capital losses of $2.4 billion ($1.7 billion after tax) related to certain securities lending activities which were deemed to be sales due to reduced levels of collateral provided by counterparties;

net realized capital losses of $2.3 billion ($1.6 billion after tax) related to declines in fair values of RMBS for the month of October prior to the sale of these securities to ML II;

net realized capital losses of $1.7 billion ($1.2 billion after tax) primarily related to foreign exchange transactions and derivatives activity;

unrealized market valuation losses on AIGFP s super senior credit default swap portfolio totaling $6.9 billion ($4.5 billion after tax); a credit valuation loss of $7.8 billion ($5.1 billion after tax) representing the effect of changes in credit spreads on the valuation of AIGFP s assets and liabilities; and losses primarily from winding down of AIGFP s businesses and portfolios of $1.5 billion ($1.0 billion after tax);

losses on hedges not qualifying for hedge accounting treatment under FAS 133 of $3.3 billion ($2.2 billion after tax) largely due to the significant decline in U.S. interest rates, resulting in a decrease in the fair value of the derivatives, which primarily economically hedge AIG s debt. To a lesser extent, the strengthening of the U.S. dollar, mainly against the British Pound and Euro decreased the fair value of the foreign currency derivatives economically hedging AIG s non-U.S. dollar denominated debt and foreign exchange transactions;

interest expense associated with the Fed Facility of $10.6 billion ($6.9 billion after tax), including accelerated amortization of the prepaid commitment fee of $6.6 billion ($4.3 billion after tax);

goodwill impairment charges of $3.6 billion, principally related to the General Insurance and Domestic Life Insurance and Domestic Retirement Services businesses; and

the inability to obtain a tax benefit for a significant amount of the losses incurred during the quarter as reflected in the addition to the valuation allowance of $17.6 billion, and other discrete items of $3.4 billion.

AIG s consolidated statements of income (loss) for the years ended December 31, 2008, 2007 and 2006 were as follows:

	Years Ended December 31,			Percentage Increase/(Decrease)	
	2008	**2007**	**2006**	**2008 vs. 2007**	**2007 vs. 2006**
	(In millions, except per share data)				
Revenues:					
Premiums and other considerations	**$ 83,505**	$ 79,302	$ 74,213	5%	7%
Net investment income	**12,222**	28,619	26,070	(57)	10
Net realized capital gains (losses)	**(55,484)**	(3,592)	106		
Unrealized market valuation losses on AIGFP super senior credit default swap portfolio	**(28,602)**	(11,472)			
Other income (loss)	**(537)**	17,207	12,998		32
Total revenues	**11,104**	110,064	113,387	(90)	(3)

Benefits, claims and expenses:					
Policyholder benefits and claims incurred	**63,299**	66,115	60,287	(4)	10
Policy acquisition and other insurance expenses	**27,565**	20,396	19,413	35	5
Interest expense	**17,007**	4,751	3,657	258	30
Restructuring expenses and related asset impairment and other expenses	**758**				
Other expenses	**11,236**	9,859	8,343	14	18
Total benefits, claims and expenses	**119,865**	101,121	91,700	19	10
Income (loss) before income tax expense (benefit), minority interest and cumulative effect of change in accounting principles	**(108,761)**	8,943	21,687		(59)
Income tax expense (benefit):					

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	Years Ended December 31,			Percentage Increase/(Decrease)	
	2008	2007	2006	2008 vs. 2007	2007 vs. 2006
	(In millions, except per share data)				
Current	**1,706**	3,219	5,489	(47)	(41)
Deferred	**(10,080)**	(1,764)	1,048		
Total income tax expense (benefit)	**(8,374)**	1,455	6,537		(78)
Income (loss) before minority interest and cumulative effect of change in accounting principles	**(100,387)**	7,488	15,150		(51)
Minority interest	**1,098**	(1,288)	(1,136)		13
Income (loss) before cumulative effect of change in accounting principles	**(99,289)**	6,200	14,014		(56)
Cumulative effect of change in accounting principles, net of tax			34		
Net income (loss)	**$ (99,289)**	$ 6,200	$ 14,048	%	(56)%

Premiums and Other Considerations

<u>2008 and 2007 Comparison</u>

Premiums and other considerations increased in 2008 compared to 2007 primarily due to:

growth in Foreign Life Insurance & Retirement Services of $3.3 billion resulting from increased production and favorable foreign exchange rates;

an increase of $1.7 billion in Foreign General Insurance due to growth in commercial and consumer lines driven by new business from both established and new distribution channels, a decrease in the use of reinsurance and favorable foreign exchange rates; and

growth in Domestic Life Insurance due to an increase in sales of payout annuities sales and growth in life insurance business in force.

These increases were partially offset by a decline in Commercial Insurance premiums of $1.5 billion primarily from lower U.S. workers compensation premiums attributable to declining rates, lower employment levels and increased competition, as well as a decline in other casualty lines of business.

<u>2007 and 2006 Comparison</u>

Premiums and other considerations increased in 2007 compared to 2006 primarily due to:

- growth in Foreign Life Insurance & Retirement Services of $2.4 billion as a result of increased life insurance production, growing group products business in Europe, improved sales in Thailand and the favorable effect of foreign exchange rates;

- an increase of $1.8 billion in Foreign General Insurance primarily due to growth in new business from both established and new distribution channels, including Central Insurance Co. Ltd. Taiwan acquired in late 2006; and

- growth in Domestic Life Insurance primarily due an increase in life insurance business in force and payout annuity premiums.

American International Group, Inc., and Subsidiaries

Net Investment Income

The components of consolidated net investment income were as follows:

	Years Ended December 31,			Percentage Increase/(Decrease)	
	2008	**2007**	**2006**	**2008 vs. 2007**	**2007 vs. 2006**
		(In millions)			
Fixed maturities, including short-term investments	**$ 20,839**	$ 21,445	$ 19,773	(3)%	8%
Equity securities	**592**	575	277	3	108
Interest on mortgage and other loans	**1,516**	1,423	1,253	7	14
Partnerships	**(2,022)**	1,986	1,596		24
Mutual funds	**(989)**	535	948		(44)
Trading account losses	**(725)**	(150)			
Other investments*	**1,002**	959	1,241	4	(23)
Total investment income before policyholder income and trading gains (losses)	**20,213**	26,773	25,088	(25)	7
Policyholder investment income and trading gains (losses)	**(6,984)**	2,903	2,016		44
Total investment income	**13,229**	29,676	27,104	(55)	9
Investment expenses	**1,007**	1,057	1,034	(5)	2
Net investment income	**$ 12,222**	$ 28,619	$ 26,070	(57)%	10%

* *Includes net investment income from securities lending activities, representing interest earned on securities lending invested collateral offset by interest expense on securities lending payable.*

2008 and 2007 Comparison

Net investment income decreased in 2008 compared to 2007 due to:

losses from partnership and mutual fund investments reflecting significantly weaker market conditions in 2008 than in 2007;

significant policyholder investment income and trading losses for Life Insurance & Retirement Services (together, policyholder trading losses), which were $7.0 billion in 2008 compared to policyholder trading gains of $2.9 billion for 2007, reflecting equity market declines. Policyholder trading gains (losses) are offset by a change in incurred policy losses and benefits expense. Policyholder trading gains (losses) generally reflect the trends in equity markets, principally in Japan and Asia;

losses related to AIG s economic interest in ML II and investment in ML III of approximately $1.1 billion in 2008; and

the effect of increased levels of short-term investments, for liquidity purposes.

2007 and 2006 Comparison

Net investment income increased in 2007 compared to 2006 due to higher levels of interest income on fixed maturity securities, an increase in income from partnerships as well as higher policyholder trading gains. Partially offsetting these increases were trading account losses related to certain investment-oriented products in the U.K. for Life Insurance & Retirement Services. The policyholder trading gains for 2007 generally reflected the trends in equity markets, principally in Japan and Asia.

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Net Realized Capital Gains (Losses)	Years Ended December 31, 2008	2007	2006
		(In millions)	
Sales of fixed maturity securities	**$ (5,266)**	$ (468)	$ (382)
Sales of equity securities	**(119)**	1,087	813
Sales of real estate and other assets	**1,239**	619	303
Other-than-temporary impairments:			
Severity*	**(29,146)**	(1,557)	
Lack of intent to hold to recovery	**(12,110)**	(1,054)	(636)
Trading at 25 percent or more discount for nine consecutive months			
Foreign currency declines	**(1,903)**	(500)	
Issuer-specific credit events	**(5,985)**	(515)	(262)
Adverse projected cash flows on structured securities	**(1,661)**	(446)	(46)
Foreign exchange transactions	**3,123**	(643)	(382)
Derivative instruments	**(3,656)**	(115)	698
Total	**$ (55,484)**	$ (3,592)	$ 106

* *In 2007, includes $643 million related to AIGFP reported in other income.*

2008 and 2007 Comparison

Net realized capital losses increased $51.9 billion in 2008 compared to 2007 primarily due to an increase in other-than-temporary impairment charges of $46.7 billion. The increase in other-than-temporary impairment charges included the following significant items:

an increase in severity losses primarily related to certain RMBS, other structured securities and securities of financial institutions due to rapid and severe market valuation declines where the impairment period was not deemed temporary;

losses related to the change in AIG s intent and ability to hold to recovery certain securities, primarily those held as collateral in the securities lending program;

issuer-specific credit events, including charges associated with investments in financial institutions; and

adverse projected cash flows on certain structured securities impaired under Emerging Issues Task Force Issue No. 99-20, Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests that Continue to be Held by a Transferor in Securitized Financial Assets (EITF 99 -20) and related interpretive guidance.

These other-than-temporary impairment charges were partially offset by the favorable effect of foreign exchange transactions due to strengthening of the U.S. dollar. See Investments Portfolio Review Other-Than-Temporary Impairments.

During the fourth quarter of 2008, in connection with certain securities lending transactions, AIG met the requirements of sale accounting under FAS 140 because collateral received was insufficient to fund substantially all of the cost of purchasing replacement assets for the securities lent to various counterparties. Accordingly, AIG recognized a loss of $2.4 billion on deemed sales of these securities. Also, net realized capital losses in 2008 included a loss of $2.3 billion, incurred in the fourth quarter of 2008, on RMBS prior to their purchase by ML II. See Investments Securities Lending Activities and Note 5 to the Consolidated Financial Statements.

2007 and 2006 Comparison

AIG recorded net realized capital losses in 2007 compared to net realized capital gains in 2006 primarily due to an increase in other-than-temporary impairment charges. Other-than-temporary impairment charges included an

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increase in severity losses primarily related to certain RMBS and other structured securities, resulting from the disruption in the U.S. residential mortgage and credit markets.

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

The unrealized market valuation losses on AIGFP s super senior credit default swap portfolio increased in 2008 compared to 2007 due to significant widening in credit spreads and the downgrades of RMBS and CDO securities by rating agencies in 2008 driven by the credit concerns resulting from U.S. residential mortgages and the severe liquidity crisis affecting the markets. In connection with the termination of $62.1 billion net notional amount of CDS transactions related to multi-sector CDOs purchased in the ML III transaction, AIG Financial Products Corp. paid $32.5 billion through the surrender of collateral previously posted (net of $2.5 billion received pursuant to the shortfall agreement), of which $2.5 billion (included in Other income (loss)) is related to certain 2a-7 Put transactions written on multi-sector CDOs purchased by ML III. These losses did not affect income, as unrealized market valuation losses were already recorded in income. See Capital Markets Results and Critical Accounting Estimates Valuation of Level 3 Assets and Liabilities and Note 5 to the Consolidated Financial Statements.

Other Income (loss)

2008 and 2007 Comparison

Other Income (loss) decreased in 2008 compared to 2007 primarily due to increased losses in Capital Markets of $13.7 billion, which includes a credit valuation adjustment of $9.1 billion on AIGFP s assets and liabilities which are measured at fair value. Asset Management other income decreased by $2.4 billion primarily as a result of lower partnership income related to the Spread-Based Investment Business reflecting weaker market conditions in 2008 and a decline in Institutional Asset Management revenues reflecting lower carried interest and losses on sales of real estate investments. These decreases were partially offset by increased rental revenues for ILFC, driven by a larger aircraft fleet and higher lease rates.

2007 and 2006 Comparison

Other Income increased in 2007 compared to 2006 primarily due to a $2 billion positive effect for AIGFP related to hedging activities that did not qualify for hedge accounting treatment under FAS 133, increased Asset Management revenues primarily resulting from higher partnership income and carried interest as well as increased rental revenues for ILFC, driven by a larger aircraft fleet and higher lease rates.

Policyholder Benefits and Claims Incurred

2008 and 2007 Comparison

Policyholder benefits and claims incurred decreased in 2008 compared to 2007 due to a reduction in incurred policy losses and benefits expense for Life Insurance & Retirement Services of $7.0 billion in 2008 compared to an increase of $2.9 billion in 2007 related to policyholder trading gains (losses) as discussed above in net investment income. These losses more than offset increased claims and claims adjustment expenses of $5.6 billion in AIG s General Insurance operations, which reflected increased catastrophe losses of $1.5 billion principally from hurricanes Ike and Gustav and a $1.8 billion increase in Mortgage Guaranty claims incurred, reflecting the continued deterioration of the U.S. housing market.

2007 and 2006 Comparison

Policyholder benefits and claims incurred increased in 2007 compared to 2006 primarily due to increases in policyholder benefits and claims incurred of $3.2 billion in Life Insurance & Retirement Services due to losses and benefits arising from policyholder trading losses of $886 million discussed above in Net Investment Income, a $1.1 billion increase in Foreign General Insurance resulting from the June 2007 U.K. floods, an increase in severe but non-catastrophic losses and higher frequency of non-severe losses, and a $1.1 billion increase in Mortgage Guaranty claims incurred resulting from the deterioration of the U.S. housing market.

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Policy Acquisition and Other Insurance Expenses

2008 and 2007 Comparison

Policy acquisition and other insurance expenses increased in 2008 compared to 2007 primarily due to a $3.6 billion increase in General Insurance expenses and a $3.7 billion increase in Life Insurance & Retirement Services expenses. General Insurance expenses increased primarily due to goodwill impairment charges of $2.0 billion, including $1.2 billion from Commercial Insurance and $696 million from Personal Lines, respectively, primarily related to goodwill arising from acquisitions. Life Insurance & Retirement Services expenses increased primarily due to $1.2 billion of goodwill impairment charges related to Domestic Life Insurance and Domestic Retirement Services of $402 million and $817 million, respectively. Life Insurance & Retirement Services expenses also increased as a result of the effect of foreign exchange, growth in the business and the effect of FAS 159 implementation.

2007 and 2006 Comparison

Policy acquisition and other insurance expenses increased in 2007 compared to 2006 primarily due costs associated with realigning certain legal entities through which Foreign General Insurance operates and the increased significance of Foreign General consumer lines business, which have higher acquisition costs. Life Insurance & Retirement Services expenses increased principally as a result of the effect of growth in the Foreign Life Insurance & Retirement Services business, increased DAC amortization related to the adoption of SOP 05-1, higher operating expenses related to remediation activities and the effect of foreign exchange.

Interest Expense

2008 and 2007 Comparison

Interest expense increased in 2008 compared to 2007 on higher levels of borrowings. Interest expense in 2008 included $11.4 billion of interest expense on the Fed Facility which was comprised of $9.3 billion of amortization of the prepaid commitment fee asset associated with the Fed Facility, including accelerated amortization of the prepaid commitment asset of $6.6 billion in connection with the restructuring of the Fed Facility and $1.9 billion of accrued compounding interest. Interest expense in 2008 also included interest on the debt and Equity Units from the dates of issuance in May 2008. The above amounts are reflected in the Other category in AIG s segment results.

2007 and 2006 Comparison

Interest expense increased in 2007 compared to 2006 reflecting higher levels of borrowings, including interest on the junior subordinated debt issued in March and June 2007, borrowings used to fund the MIP and borrowings used for general corporate purposes.

Restructuring expenses and related asset impairment and other expenses

As described in Note 1 to the Consolidated Financial Statements, AIG commenced an organization-wide restructuring plan under which some of its businesses will be divested, some will be held for later divestiture, and some businesses will be prepared for potential subsequent offerings to the public. In connection with activities under this plan, AIG recorded restructuring and separation expenses of $758 million in 2008, consisting of severance expenses of $89 million, contract termination expenses of $27 million, asset write-downs of $51 million, other exit expenses of

$140 million and separation expenses of $451 million.

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

Severance and separation expenses described above include retention awards of $492 million to key employees to maintain ongoing business operations and facilitate the successful execution of the restructuring and asset disposition plan. This amount also includes retention awards to AIGFP s employees under its retention program, which was established in the first quarter of 2008 due to the declining market environment, to manage and unwind its complex businesses. The total amount expected to be incurred related to these retention programs is approximately $1.0 billion.

For the year ended December 31, 2008, $139 million, $68 million, $287 million and $69 million of the restructuring and separation expenses have been recorded within the General Insurance, Life Insurance & Retirement Services, Financial Services and Asset Management segments, respectively, while $195 million has been recorded in Other operations.

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

Other Expenses

2008 and 2007 Comparison

Other Expenses increased in 2008 compared to 2007 primarily due to goodwill impairment charges of $791 million in 2008 in the Financial Services segment related to the Consumer Finance and Capital Markets businesses, which resulted from the downturn in the housing markets, the credit crisis and the intent to unwind AIGFP s businesses and portfolios. In addition, other expenses in 2008 increased compared to 2007 due to higher AGF provisions for finance receivable losses of $674 million in response to the higher levels of delinquencies in AGF s finance receivable portfolio.

2007 and 2006 Comparison

Other Expenses increased in 2007 compared to 2006 primarily due to increases in MIP and compensation related expenses in Asset Management, increases in depreciation expense on flight equipment in line with the increase in the size of the aircraft fleet and an increase in AGF s provision for finance receivable losses of $206 million.

Income tax expense (benefit)

2008 and 2007 Comparison

The effective tax rate on the pre-tax loss for 2008 was 7.7 percent. The effective tax rate was lower than the statutory rate of 35 percent due primarily to $26.1 billion of deferred tax expense recorded during 2008, comprising $5.5 billion of deferred tax expense attributable to the potential sale of foreign businesses and a $20.6 billion valuation allowance to reduce its deferred tax asset to an amount that AIG believes is more likely than not to be realized.

Realization of the deferred tax asset depends on AIG s ability to generate sufficient taxable income of the appropriate character within the carryforward periods of the jurisdictions in which the net operating losses and deductible temporary differences were incurred. AIG assessed its ability to realize its deferred tax asset of $31.9 billion and concluded a $20.6 billion valuation allowance was required to reduce the deferred tax asset to an amount AIG believes is more likely than not that to be realized. See Note 20 to Consolidated Financial Statements for additional discussion regarding deferred tax asset realization.

2007 and 2006 Comparison

The effective tax rate declined from 30.1 percent in 2006 to 16.3 percent in 2007, primarily due to the unrealized market valuation losses on AIGFP s super senior credit default swap portfolio and other-than-temporary impairment charges. These losses, which are taxed at a U.S. tax rate of 35 percent and are included in the calculation of income tax expense, reduced AIG s overall effective tax rate. In addition, other tax benefits, including tax exempt interest and effects of foreign operations were proportionately larger in 2007 than in 2006 due to the decline in pre-tax income in 2007. Furthermore, tax deductions taken in 2007 for SICO compensation plans for which the expense had been recognized in prior years also reduced the effective tax rate in 2007.

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Segment Results

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

	Years Ended December 31,			Percentage Increase/(Decrease)	
	2008	**2007**	**2006**	**2008 vs. 2007**	**2007 vs. 2006**
		(In millions)			
Total Revenues:					
General Insurance	**$ 44,676**	$ 51,708	$ 49,206	(14)%	5%
Life Insurance & Retirement Services	**3,054**	53,570	50,878	(94)	5
Financial Services	**(31,095)**	(1,309)	7,777		
Asset Management	**(4,526)**	5,625	4,543		24
Other	**(81)**	457	483		(5)
Consolidation and eliminations	**(924)**	13	500		(97)
Total	**$ 11,104**	$ 110,064	$ 113,387	(90)	(3)
Net realized capital gains (losses):					
General Insurance	**$ (5,023)**	$ (106)	$ 59		
Life Insurance & Retirement Services	**(44,347)**	(2,398)	88		
Financial Services	**(498)**	(100)	(133)		
Asset Management	**(8,758)**	(1,000)	(125)		
Other	**3,142**	12	217		(95)
Total	**$ (55,484)**	$ (3,592)	$ 106		
Operating Income (loss):					
General Insurance	**$ (5,746)**	$ 10,526	$ 10,412		1
Life Insurance & Retirement Services	**(37,446)**	8,186	10,121		(19)
Financial Services	**(40,821)**	(9,515)	383		
Asset Management	**(9,187)**	1,164	1,538		(24)
Other	**(15,055)**	(2,140)	(1,435)		
Consolidation and eliminations	**(506)**	722	668		8
Total	**$ (108,761)**	$ 8,943	$ 21,687	%	(59)%

General Insurance Operations

AIG s General Insurance subsidiaries are multiple line companies writing substantially all lines of property and casualty insurance and various personal lines both domestically and abroad and constitute the AIG Property Casualty Group (formerly known as Domestic General Insurance) and the Foreign General Insurance Group.

As previously noted, AIG believes it should present and discuss its financial information in a manner most meaningful to its financial statement users. Accordingly, in its General Insurance business, AIG uses certain regulatory measures, where AIG has determined these measurements to be useful and meaningful.

A critical discipline of a successful general insurance business is the objective to produce profit from underwriting activities taking into account costs of capital. AIG views underwriting results to be critical in the overall evaluation of performance.

Statutory underwriting profit is derived by reducing net premiums earned by net losses and loss expenses incurred and net expenses incurred. Statutory accounting generally requires immediate expense recognition and

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ignores the matching of revenues and expenses as required by GAAP. That is, for statutory purposes, expenses (including acquisition costs) are recognized immediately, not over the same period that the revenues are earned. Thus, statutory expenses exclude changes in DAC.

GAAP provides for the recognition of certain acquisition expenses at the same time revenues are earned, the accounting principle of matching. Therefore, acquisition expenses are deferred and amortized over the period the related net premiums written are earned. DAC is reviewed for recoverability, and such review requires management judgment. The most comparable GAAP measure to statutory underwriting profit is income before income taxes, minority interest and cumulative effect of change in accounting principles. A table reconciling statutory underwriting profit to income before income taxes, minority interest and cumulative effect of change in accounting principles is contained in footnote (b) to the following table. See also Critical Accounting Estimates herein and Notes 1 and 8 to the Consolidated Financial Statements.

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 divided by net premiums earned. These ratios are relative measurements that describe, for every $100 of net premiums earned, the cost of losses and expenses, respectively. A combined ratio of less than 100 percent indicates an underwriting profit and over 100 percent indicates an underwriting loss.

Net premiums written are initially deferred and earned based upon the terms of the underlying policies. The net unearned premium reserve constitutes deferred revenues which are generally earned ratably over the policy period. Thus, the net unearned premium reserve is not fully recognized in income as net premiums earned until the end of the policy period.

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 general insurance ratios.

General Insurance Results

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

	Years Ended December 31,			Percentage Increase/(Decrease)	
				2008 vs.	2007 vs.
	2008	2007	2006	2007	2006
	(In millions, except ratios)				
Net premiums written:					
AIG Property Casualty Group					
Commercial Insurance	**$ 21,099**	$ 24,112	$ 24,312	(12)%	(1)%
Transatlantic	**4,108**	3,953	3,633	4	9

Personal Lines	**4,514**	4,808	4,654	(6)	3
Mortgage Guaranty	**1,123**	1,143	866	(2)	32
Foreign General Insurance	**14,390**	13,051	11,401	10	14
Total	$ **45,234**	$ 47,067	$ 44,866	(4)%	5%

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American International Group, Inc., and Subsidiaries

	Years Ended December 31,			Percentage Increase/(Decrease)	
	2008	2007	2006	2008 vs. 2007	2007 vs. 2006
	(In millions, except ratios)				
Net premiums earned:					
AIG Property Casualty Group					
Commercial Insurance	$ **22,351**	$ 23,849	$ 23,910	(6)%	%
Transatlantic	**4,067**	3,903	3,604	4	8
Personal Lines	**4,679**	4,695	4,645		1
Mortgage Guaranty	**1,038**	886	740	17	20
Foreign General Insurance	**14,087**	12,349	10,552	14	17
Total	$ **46,222**	$ 45,682	$ 43,451	1%	5%
Net investment income:					